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GOTHENBURG

STOCKHOLM

MALMÖ



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ECONOMIC EQUILIBRIUM

BY PROFESSOR GUSTAV CASSEL

A system of national economy is never completely at equilibrium, and it may therefore seem to be merely of academic interest to discuss the conditions on which its equilibrium can be maintained. None the less such a discussion is necessary. Firstly, for pedagogic reasons. It is quite impossible to give any student of economics, or any other person interested in economic matters, a clear insight into the essentials of a national economy, unless one proceeds from the simplest case, a national economy which is at equilibrium. Such a study is also of direct practical importance. Any deviations from equilibrium which may occur will invariably entail drawbacks of one kind or another. Demands will then be made for remedying such evils, and counter-measures of divers kinds will be recommended. It may happen that such measures will tend to dislocate the national economy still further from equilibrium and thus to aggravate the evils in a way never dreamt-of by the propounders of those schemes. In such circumstances a clear idea of the fundamental conditions for the equilibrium of the national economy is absolutely essential in order to deal intelligently with disturbing factors.

In such restless times as the present the need of clearness on these matters is greater than ever. It may indeed seem that people's attention is so deeply engrossed by the overshadowing troubles of the day that they cannot find leisure for speculation on such a big theoretical question as the problem of equilibrium in the national economy. In these times, however, we should be more than ever on our guard against the adoption of wrong methods. We are being deluged with schemes for palliating the crisis, palliatives which often actually lead to an accumulation of conflicting forces and tend to damage the national economy at its core. But this is not the end of

the matter. The besetting difficulties prompt people to think out entirely new structures of society, in which the disturbances now afflicting us would be eliminated. Though such constructions may be based on very sandy foundations, they may nevertheless gain a wide popularity and exercise a far-reaching influence on practical policy. No economic thinking can withstand such enticements into the wide, alluring field of economic charlatanry, without having first found a foothold on the solid foundation provided by a thorough study of the theory of equilibrium in a national economy.

From these points of view I venture to invite attention to some of the most elementary features of economic life.

When we speak of economic equilibrium we should first try to make clear to ourselves what is to be at equilibrium. As I view the problem here, it is the entire system of national economy. For simplicity's sake, we may confine ourselves at first to considering a self-contained national economy. This means that the problems of equilibrium in international economy are for the moment brushed aside. Now how can such a self-contained national economy be at equilibrium? In order to answer this question we must first grasp the fact that a national economy is essentially a system in continuous operation. The national community abides and human needs are perpetual. The production of utilities must therefore perpetually proceed. Likewise consumption. It is this continuously proceeding national economy that we must study. It has no beginning and no end. In this way it differs essentially from the production of specific utilities or their consumption.

At complete equilibrium such a continuously proceeding national economy would also remain perpetually maintained and renewed, so that it



never changed. This would be the primary condition for the perpetual maintenance of constant real income.

It is salutary to begin by studying such a national economy. This alone would enable us to avoid many errors which result from observations based on private economy. The picture of the national economy would, however, be very incomplete if we confined ourselves to such elementary considerations. In order to grasp such important economic phenomena as saving and the accumulation of capital, we must extend our study so as to comprehend a national economy in continuous *progress*. In reality progress results from constant changes of a very shifting nature. Nevertheless it will be necessary, for simplicity's sake, to introduce the picture of a uniformly progressing economy. Such an economy presupposes a perpetual increase of real capital, which can be effected only if some of the productive forces of the community are concentrated on the production of fresh real capital over and beyond what is required for maintenance and renewal. In that case the consumption must be less than the aggregate net result of the production. This limitation of consumption is saving.

In a uniformly progressing national economy saving will always be a constant part of the total real income. This saving serves annually to increase the stock of real capital by a certain percentage, let us say three per cent. per annum. This increase will make it possible for the real income to grow at the same pace. Seeing that saving is a constant part of the real income, saving will likewise increase by three per cent. per annum. The idea, based on private economy, that saving serves for the accumulation of funds which are eventually to be consumed, thus has no validity for national economy. Uniform progress in fact never admits of any consumption of savings, in the sense that the capital of the community would diminish. On the contrary, that capital must be perpetually increased at the same percentage rate.

If we have familiarized ourselves with this picture of equilibrium in a uniformly progressing economy, we shall have guarded ourselves against many of those fallacies which daily crop up in

discussions of economic problems. It will then be grasped that the accumulated capital is not something which can be disposed of for meeting the requirements of the hour, but that, on the contrary, the satisfaction of the needs of the moment must always be restricted, in some measure, in favour of a perpetual increase of capital.

The advantages of maintaining uniform progress are quite evident. Progress at the rate of three per cent. per annum leads roughly to the doubling of the national wealth every quarter of a century. This means a doubling both of real capital and real income, but also a doubling of that part of the income which is saved, and a doubling of consumption. All projects for the improvement of the national economy must take such a normal development as a gauge of their effectiveness. If they do not attain the standard of what has actually been achieved by the western world during the last few generations in regard to economic progress, they are foredoomed.

The above observations are applicable to any national economy, irrespective of its organization. The next step in our analysis must be an investigation of the conditions for the maintenance of equilibrium in that kind of national economy which is usually termed a barter economy. The characteristic feature of a barter economy is that each person can procure what he desires to consume, in exchange for his contribution to the national resources. This barter is essentially voluntary. The exchanging parties must find the barter to be to their advantage. This signifies that the value of every product, as also of every piece of work, is an index of consumers' demands, and thus cannot solely be determined by what the powers that be may think fit.

A well-developed barter economy always uses a monetary unit as a measure of all values, and from that point of view may be designated as a money economy. All goods and services, as also all factors of production, are rated in this economy at certain prices. The economy attains its equilibrium at a price constellation of such a nature that all factors of production, as also all products, are in full demand, whilst the demand is restricted to a sufficient extent to enable it to



be supplied. The price structure is thus a factor of paramount importance in bringing the national economy into equilibrium. Prices cannot be arbitrarily changed without disturbing that equilibrium. The grasp of this fact is of fundamental importance for all economic policy. The major part of those numerous interventions in the national economy which are proposed as a palliative for various evils, have the character of attempts to set aside the normal price structure and to introduce a price-fixing system which, from one point of view or another, might seem to be more advantageous. People forget that this cannot be done without disturbing the equilibrium of the national economy, perhaps with consequences which are as detrimental as they are incalculable. Hence a clear grasp of the function of the price structure as the principal factor in safeguarding the normal equilibrium of the national economy is an indispensable feature in all economic education.

Should the price structure lead to evils, such as an unduly low estimation of certain kinds of work or unduly high prices of important necessities, the remedy must be sought, not in a dislocation of the price-fixing mechanism, but in a better organization of the entire national economy, and especially in a better training and distribution of available labour. A social policy which pins its faith on grants-in-aid and subventions is bound to miss the mark. It will keep the workers in poorly remunerated employments, and will tend to impede that perpetual adjustment of production to the wishes of consumers which must always proceed if the national economy is to be kept at equilibrium. Such a system of subsidies must be replaced by a social policy which leaves the price structure to operate in the normal way; but devotes all its energy to improving the objective basic conditions of the price structure, and particularly to rendering labour of various kinds more valuable for the national economy. Such a line of demarcation between different aims of social policy seems to be what we chiefly need in order to arrive at a sound management of the national economy. This is a matter which should be particularly noted in present conditions. Now more than ever the re-training and shifting

of labour and the adjustment of the entire process of production to existing needs should be the leading aims of social policy. And these aims must not be impeded by any kind of subsidy system, which, contrary to the interests of the national economy, will retain labour in its quondam employments.

The price structure, however, is not the only machinery available for restricting consumers' demands to such extent that they can be supplied. In the rationing system we have found a machinery which, though it does not supersede the price structure, supplements it as a means of restriction, and thus makes it possible in certain branches to keep prices lower than they would be without rationing. This method will be of dubious value if it excludes that stimulation of production which, if higher prices were obtainable, might be expected to increase the supply of scanty goods. But there may be situations in which such effects of a rise in prices cannot be expected, or at any rate would not make themselves felt until after the lapse of too long time. Rationing is thus of importance as a temporary aid in the process of distribution. It may also serve to fend off a temporary rush for scanty goods for hoarding purposes. None of these benefits, however, warrants the retention of the rationing system in normal times, when the price structure may be brought again into full operation as the regulative factor for production and consumption.

An important aspect of the national economy is in all cases the establishment of equilibrium between the demand for and the supply of capital. In this sphere the price structure is represented by the interest on capital. Its function is to restrict the demand for capital in such a way that the savings effected day by day will suffice to cover it. In no respect are the current notions that the price structure can be treated in an arbitrary way more common and more dangerous than precisely in regard to the interest on capital. Everywhere we find people who are extremely reluctant to recognize the necessity of interest on capital and, if possible, are still more reluctant to face the fact that the current savings set a limit to those demands for capital which are invariably connected with extensive pro-



grammes of social policy and especially with the relief of unemployment. In such matters people are easily tempted to abandon the demand for equilibrium, as there is always a possibility of eking out the supply of real savings by creating new means of payment without a corresponding increase in the products which money can buy. This is inflation.

The general public have by this time acquired a salutary dread of inflation. Unfortunately, however, this dread may have the effect of making people shut their eyes to the premonitory signs of an incipient inflation rather than reject demands for capital which go too far.

The problem now discussed leads up to the general question of equilibrium in the monetary supply. It is desirable that a country should be supplied with means of payment to such extent that the general level of prices remains constant and that the monetary unit thus retains its purchasing power. Deviations from such an equilibrium will entail far-reaching disturbances in the national economy, which may prove to be extremely serious. Before people conclude from such disturbances that the whole existing system of national economy must be condemned and some new economic structure built up, they should seriously consider what stability in the monetary system must mean for any national economy. As the monetary supply is the factor in this stability which is most subservient to the control of a wise

government, the main responsibility for the continued existence of the national economy must rest on those who are entrusted with the management of the currency.

Periodical fluctuations in economic trend are perhaps the most serious practical problem of national economy. They have in fact long been the subject of much theoretical study and dilettante speculation. We can evidently make no headway in tackling this problem, unless we have first tried to realize what a national economy without fluctuations in the economic trend would mean. We should then find ourselves precisely in the uniformly progressing economy so far as any progress at all was still taking place. How it would be possible in such an economic system constantly to employ all available labour and constantly to find a market for all products, this is a fundamental question of national economy which can never be evaded.

If the general public would take the trouble to penetrate more deeply into the various problems of equilibrium discussed here, many unwise interferences with the machinery of the national economy would doubtless be left undone. We should try to see beyond the effects immediately intended. Sensible people could scarcely desire to force through measures which are bound to disturb the equilibrium of the entire national economy or to impede the restoration of a temporarily lost equilibrium.



THE SWEDISH WHOLESALE PRICE TREND

BY PROFESSOR GUSTAV ÅKERMAN

I. The method for calculating the price indices.

In 1938 the Swedish Board of Trade constructed an official wholesale price index for imports and another for exports. In 1939 the Board of Trade's official wholesale price index for domestic commodities was reconstructed. The two first-mentioned indices are called respectively import price index and export price index, the last-mentioned simply "wholesale price index". All three indices take 1935 as a base, except as regards wood pulp and wood goods, where the years 1934—1936, on the average, have been adopted as a base period. (These indices are described in "*Kommersiella meddelanden*" 1939, Nos. 2 and 19, and 1940, No. 1.)

In combining the special indices for the different articles into group indices and a total index, they are assigned different numbers of weight units at the rate of 3.5 million kronor per unit, corresponding to their total sale volume during the base period 1935 or 1934—1936, respectively. The prices of goods included in the export price index are computed at their fob values, goods included in the import price index at the cif figures, and goods included in the domestic price index, which have been turned over several times, at the latest sale values which could be ascertained. The weights are thus fixed, that is, in all subsequent computations no account is taken of changes in the sale volume of the different values which may have occurred after the base period 1935. When prices are rising (or falling) fast, but differently the effect of this weighting system is that the indices give somewhat higher (or lower) figures than corresponds to the facts. For when prices are thus rising the consumption of those goods which have risen most markedly in price tends to be diminished, whilst the consumption of

other goods tends to increase, without this affecting the average index numbers then computed. If scanty goods are subject to price regulation and demand is shifted on to more expensive substitutes it follows, on the other hand, that the actual rise in prices may be greater than that shown by the price index as constructed.

The price figures from which the compilers of the indices proceed are current quotations for deliveries within the customary time. The actual deliveries and following payments of prices often take place somewhat later, sometimes considerably later, than the corresponding price contracts. This applies particularly to important export and import goods, where the contracts often stipulate for successive deliveries for a long time ahead at the prices in question. During periods of rapidly rising prices the export and import price indices will therefore show an earlier and at first more rapid rise than that of the concurrent average prices actually paid, which are largely based on contracts of earlier date. The export and import price indices thus give relatively rapid results, interesting as indications of the economic trend. On the other hand, for the purpose of comparison with the retail price trend during a certain period, an index of the average prices actually paid would be more valuable. All index numbers computed for periods of one month show the average for the whole month.

In the computation of weights for the domestic wholesale price index, all turnover comprised in wholesale trade proper has been included, amounting in all to a total value of 6.4 milliard kronor. Thus the farmers' consumption of their own products or sales by farmers or artisans direct to individual consumers have not been included, nor the production of goods by manufacturing or other companies for further elaboration at their own establishments. The wholesale price index includes also the prices of imported



capital goods or consumption goods, seeing that those prices immediately affect the domestic price structure. On the other hand, the prices of export goods, which have no such immediate effect, are not included. Moreover, in view of various statistical difficulties, certain goods of relatively small importance in domestic trade, such as fresh fish and furniture, have not been included in the wholesale price index.

The price indices of the various commodities are combined into group indices, the latter into "main group indices", and these again into the three above-mentioned total indices. In the import price index we find a classification into main groups according to the principal use of the goods: this method will be touched on in the sequel. The domestic wholesale price index shows classifications into main groups according to several different principles. The chief method of classification is according to the class of goods, each main group as a rule including raw materials, semi-manufactures and finished products within its special branch of production. The index series here referred to are reproduced in essentials in the following sections IV and V.

II. Import and export commodity prices.

At the outbreak of war the Swedish rates of exchange on New York and Berlin had been raised quite slightly, namely from 4.15 to 4.20 kronor and from 167 to 168.50 kronor, respectively. Subsequently and during the whole of 1940 the exchange rate for the dollar was kept quite constant, and the rate for the mark remained practically unchanged. The American Bureau of Labor's wholesale price index was raised from August to September 1939 by 5 per cent. and has since then been maintained almost unchanged. It may therefore be stated that the Swedish price level has not been exposed, in any appreciable degree, to price-raising impulses from the American price level.

As regards the German currency the matter is more complicated. After August 1939 the domestic level of wholesale prices in Germany gradually rose, but quite slowly, by altogether 4 per cent. to the end of 1940, and this trend in itself

should not have shown any general tendency to raise the Swedish price level. But, owing to the excessive international valuation which the German mark actually enjoyed in 1933—1939, the German level of wholesale prices was really much too high. The exportation which was necessary for Germany could therefore, broadly speaking, be attained only by dint of effective, though unofficial, export subsidies. As the competition of the Anglo-Saxon countries on the Swedish market has now been eliminated, Germany has been able to wind up her system of export subsidies and to let her export price level relatively to Sweden rise in correspondence with the domestic price level, which has been well maintained. This was particularly noticeable during the latter half of 1940. So far as this has occurred, and so long as the rate of exchange between Sweden and Germany was kept constant, it was bound to show a marked tendency to raise the Swedish price level.

At the outbreak of the war the Swedish rate of exchange for the pound sterling, in connection with the fall of the pound in New York, dropped from its long "pegged" position of kr. 19:40 to kr. 16:60 in November 1939, and subsequently rose to kr. 16:95 in January 1940, a rate which has since been maintained unchanged. The British Board of Trade's wholesale price index rose from 98 in August 1939 to 122 in December, 129 in March 1940 and 141 in September. Thus up to the end of March the lowering of the exchange rate must have largely eliminated the general tendency of the English price level to raise prices in Sweden. As for the English price trend since March 1940, it has not been able to affect Sweden.

In the half-yearly¹ reports of the Swedish Economic Trend Institute indices have been computed for the physical volume and average value of import and export commodities during different months of the war period, with corresponding months in 1936—1938 as a base. As machinery, instruments and means of transport are not included in the computations, they comprise import and export goods with an aggregate value of about 80 per cent. only of the total im-

¹ These reports serve as the principal source of the data given in this and the two following sections.



port or export value. The index numbers for the said average values for the last month in each quarter are reproduced in the following *table 1*. For the purpose of comparison, the figures in the Swedish Board of Trade's import and export price index for the same months are likewise given, as also the index numbers in the sub-group of the import index: "fuels and lubricants". In order to render these figures quite commensurable with the average value figures of the Economic Trend Institute, the index numbers of the Swedish Board of Trade have been recalculated for the same base period, the years 1936–1938. The weights of the whole import price index total 393 index units, of which 53 fall under "fuels and lubricants".

It will be seen from table I that the figures of the import price index for the whole war period are very considerably higher than those for the average value. One of the reasons for this is that, as above stated, the import price index is constructed with fixed weights based on the composition of the imports in 1935, whilst the average value index is computed with "movable" weights on the basis of the actual changes in importation. The principal reason, however, is, that as previously indicated, the import price index is based on current market quotations during the respective months, whereas the average value index is based on the prices actually paid during the months.

The trend of freight rates during the war has, as we know, greatly conduced to raise the prices of Swedish imports. The index of Svenska Handelsbanken for inward freights, with August 1939 as a base, was in December of that year 343 and in March 1940 no less than 673. The corresponding index numbers for coal freights solely were 392 and 876, respectively. These immense increases in freight rates were primarily due to the prolongation of the length of voyages during the war and to the heavy war risk insurances on hulls and cargoes.

The fixing of freight rates has been under the control of the Swedish Shipping Board. Towards the end of 1939 and at the beginning of 1940 that Board drastically restricted the freight rates on Swedish vessels, permitting, broadly speaking,

only such increases in the rates as were warranted by actual increases in shipping costs. Thus in October 1940 the Board fixed maximum freight rates, on a uniform basis, for coal and coke carried on Swedish bottoms. As for freights on foreign vessels, the Board had to confine itself to refusing its approval of certain "top" freights. Hence, owing to the shortage of tonnage, foreign freight rates, generally speaking, greatly exceeded the corresponding Swedish rates, especially as regards coal and coke.

The figures of the import price index in table I indicate that the cif prices quoted for Swedish import commodities rose rapidly up to the end of March 1940, which was evidently mainly due to the marked increases in freights. In correspondence therewith, though somewhat more slowly, the figures for the average value likewise rose. The group "fuel" in the import price index showed a particularly marked rise in price, mainly owing to increases in freights.

Since the middle of April 1940 importation from the western countries has almost entirely ceased, whence Sweden's total imports have shown a substantial decrease. Thus, according to estimates made by the Economic Trend Institute, the physical volume of imports during the period May–November 1940 was merely 55 per cent. of the corresponding volume during the same period 1936–1938. Scope was thus provided for considerable increases in the prices of many import goods on the ground of "shortage", and quite irrespective of freight rates. This situation was also exploited by Germany, which together with the occupied countries became almost our sole supplier.

As far back as January 1940 Sweden concluded with Germany a trade agreement, according to which we were assured of an importation of 3 million tons of coal during the year, as well as large amounts of coke, rolling mill products, pig iron and certain chemicals, all at fob prices close to the pre-war level. In July 1940 a supplementary agreement was concluded, under which Sweden was assured of an additional quantity of 1.2 million tons of coal and coke at considerably higher prices. The stipulated importation of coal proceeded fairly satisfactorily during the first half



of 1940, but not quite so well during the latter part of the year. Besides the prices fixed by agreement, a fairly general rise in the fob prices of other German imports, such as textile goods and certain chemicals, occurred during the latter part of the year.

The Swedish cif prices for these German imports were further raised somewhat by an increase in the Baltic freight rates, which, though much lower than for North Sea freights, was nevertheless rather considerable. Thus the index of Svenska Handelsbank for inward freights on the Baltic, with August 1939 as a basis, was 231 for June 1940, 216 for September, and 290 for December.

As the combined effect of all these circumstances, the rise of the import price index was interrupted after the month of March, and during the next three months it remained quite stable. Since then, however, there has been a new upward trend, which became particularly marked after September. Here we see a reflection of the previously mentioned rise in the fob prices of a large number of German goods. The figures of the index for average values likewise continued to move upwards, though, as before, with a lag. The disparity between the two indices was least in September 1940, before the new upward trend in the import price index had begun in earnest.

As regards German coal the freight index numbers kept fairly close to the above-mentioned general figures for Baltic freights. Owing to the more abundant supply of German coal at moderate fob prices and at freight rates which were not unduly high, the average Swedish cif prices for coal could be kept in the summer of 1940 considerably lower than during the preceding winter. The special index for fuel was thus substantially brought down in June, being then actually somewhat below the general import price index. The following rise in the price of German coal has, however, again led to a marked rise in the price index for fuel.

Some observations must now be made on the *export commodity prices*. These prices, being fob, are not directly affected by any freight rates. Hence, as will be seen from table 1, the export price index as well as the index for average export values right up to March 1940 showed a much

more moderate upward trend than the corresponding series on the import side. This in turn explains why the lag of the index for average values relatively to the price index was considerably less on the export than on the import side.

After the middle of April Sweden's westward exports of timber products and other goods were completely cut off. In consequence, the physical volume of Sweden's entire exports during the period from May to November amounted merely to 43 per cent. of the volume during the same months in 1936—1938. During the period from March till June the export price index consequently fell, whilst the actual average value continued to rise, so that it moved above the price index. Since then the two index series have remained fairly stable, with a slight rising tendency after September. It is remarkable that the index for average values should have risen after March 1940 to such a high level. This can scarcely have been due to iron ore prices, which by the German trade agreement of January 1940 had been fixed close to the pre-war level. It may doubtless be largely accounted for by the increases in the costs of production in the Swedish export industries owing to the rise in the prices of coal and other imported raw materials. But presumably there is concealed here some other real or statistical factor, which, in default of more precise data, eludes analysis.

Table 1. *Import and export prices.*
(base 1936—38)

	1939		1940			
	Sept.	Dec.	March	June	Sept.	Nov.
<i>Imports</i>						
Average value . . .	101	122	128	133	152	167
Price index . . .	123	143	154	155	163	184
Of which: Fuel . .	155	192	237	150	172	
<i>Exports</i>						
Average value . . .	95	96	120	133	135	
Price index . . .	98	112	126	119	120	125

During the entire period between the two world wars the price level of our export goods, relatively to 1914, was considerably higher than for our import goods, and this factor greatly conduced to Sweden's prosperity during that epoch. A comparison between the index series on the import and export sides in table 1 shows that



during the present war our import prices have shown a much more marked rising trend than our export prices. The factor which had so largely contributed to Sweden's prosperity has thus been eliminated. So long as an international situation like the present exists, our prosperity must therefore keep at a considerably lower level than before the outbreak of the war.

III. Price control.

In an article in the January 1940 issue of this quarterly I reviewed the Maximum Price Law of May 1939, which enables the Government to fix maximum prices for certain important commodities; also the Price Regulation Law of December 1939, empowering the Government to prescribe so-called "normal prices" or to restrict the right of regular trade in a particular commodity to members of certain organizations, etc. I further mentioned the passage in November 1939 of the Bill "relating to the taking over of certain war risks on importation".

Formally speaking, these measures have been carried into effect merely to a minor extent. Only in regard to raw phosphate has the State actually taken over war risks on importation. Maximum prices have been fixed only in regard to certain freights, and "normal prices" only for firewood, whilst the power of the Government to restrict to certain organizations the right to trade in particular commodities has hitherto remained in abeyance. Nevertheless the mere existence of these various legal powers has been of considerable importance. Backed by these laws, the Price Committee, which in April 1940 was converted into the Price Control Board, has been in a position to exercise a fairly effective control over prices. In these matters the Board has closely cooperated with the Price Bureau established by the Federation of Swedish Industries. As stated in my above-mentioned article, various companies and branch associations have submitted contemplated increases in price to this Bureau for examination and approval. The Wholesale Dealers' Association have also set up a price board, which performs similar functions in regard to wholesale trade, though on a less extensive scale. Thus only such increases in price

as are particularly noteworthy are submitted to that board for approval.

The Price Control Board and the Federation of Swedish Industries have confined themselves mainly to considering questions as to whether proposed increases in prices have been warranted by corresponding increases in the costs of production after the outbreak of war, but, generally speaking, have not tackled the far more complicated question as to whether the entire price corresponded to the total costs of production per unit. But, in view of changes in methods of production and the taking-up of new kinds of products, it has been found increasingly difficult, as time has elapsed, to maintain such limitations in the examination of prices. Latterly, therefore, the testing of prices has had to be based, in increasing measure, on total estimates of costs. This undoubtedly involves a certain risk: we may thus drift into a rigid, and perhaps arbitrary, bureaucratic system of price control, which might eventually jeopardize the efficacy of the entire system.

In the examination of prices, the cost of raw materials consumed in production has as a rule been estimated according to the prices which would have to be paid for the replenishment of such materials at the time of production, and not at the price at which they were originally procured, which has usually been much lower. This method of calculation, however, is adopted on the understanding that the goods are obtainable at the higher prices and that arrangements for replenishment have actually been made.

When, owing to shortage of raw materials or diminished demand, production and sales have shrunk, many companies desired to spread the entire fixed costs over the reduced sales, that is, to increase the percentage price increments for fixed costs per unit of production. The Price Control Board as well as the Federation of Swedish Industries have, however, repudiated all such claims, and this price policy has been approved by representatives of industry. In wholesale trade, on the other hand, some firms seem to have raised their prices solely on the ground of reduced sales.

In addition to compensation for all actual costs, commodity prices, of course, include a margin of



profit, representing a return on the capital invested. Such additional charges are often estimated in percentage of the other costs, and thus, absolutely speaking, rise according as other costs increase. As a matter of principle, however, the Price Control Board approves only additional charges of the same magnitude, absolutely speaking, as before, that is to say, a lower percentage for margin of profit when general costs increase. The manufacturers, for their part, have assented to this rule.

The tradesmen, on the other hand, have demanded that the practice of estimating the margin of profit in percentage should be maintained, especially on the ground that their profit returns are gross percentages and thus cover most of the expenses incurred in the course of trade. These expenses which generally rise with the purchase price of the goods cannot as a rule be separated from the pure net profit. This practice has usually been accepted by the Price Control Board where the rise in the prices of goods purchased by the trade is confined to about 20 per cent.; but in cases where the rise in price is larger, the Board has endeavoured to separate the net profit from real expenses and prevent a corresponding increase thereof. This policy, however, can be effectually carried out only where the goods in question are of standardized, easily surveyable character. But in haberdashery and other trades in miscellaneous goods it has scarcely been possible properly to control the estimated margin of profit.

Where the reduced sales have been due to shortage of raw materials or of other kinds of imported goods, there is a strong tendency to raise the price of the products marketed, and such increments often considerably exceed the actual increase in the cost of materials. This raising of prices on the ground of shortage usually proceeds until the demand has been automatically reduced in correspondence with the diminished supply. Such tendencies towards increases in price because of shortage have, as far as possible, been counteracted by the Price Control Board, in most branches. But, where the shortage of goods is particularly marked, this policy can be effectively carried out only in conjunction with administrative measures, intended to regulate the

consumption of the goods. Thus, at the request of the Industrial Commission or Food Commission, an embargo has been laid on various kinds of scanty goods, and permission for the sale of the goods under embargo has in some cases been granted subject to the condition that the prices charged do not exceed a certain moderate limit. In the case of some imported goods subject to license, such as certain groceries, licences have been granted only on the condition that the sale prices of the goods, or of products containing such goods, shall not exceed a certain limit fixed by the Price Control Board. In regard to scanty domestic goods, however, recourse has, in most cases, been had to voluntary agreements between buyers and sellers under the supervision of the Price Control Board.

It should be observed, however, that embargoes or voluntary price agreements in regard to scanty goods are as a rule primarily intended to regulate the supply, the question of prices being merely subsidiary. It was for these purposes that an embargo was laid, in August 1940, on wool, cotton and woollen yarn. This embargo has served as a basis for a regulation of the market, in accordance with which the scanty supplies of foreign raw materials have been replaced, on a varying scale, with textile waste or cellulose wool, and the manufacture of various kinds of products which require large amounts of foreign raw materials has been cut down. The consumption of copper for certain civil purposes has been restricted by voluntary agreement between the Industrial Commission and the wholesale dealers in metals; a similar arrangement has been made in regard to tin.

As consignments of a number of scanty goods have been purchased abroad at considerably varying prices, it was apprehended that the import prices of the most expensive consignments might serve as a general norm for the domestic prices of those goods. Recourse was then had to existing associations of importing merchants or manufacturers; in some cases the authorities, backed by the provisions of the Price Regulation Law, instigated the voluntary formation of such associations. The various imported consignments were then pooled within these associations, and the average price thus computed served as a norm



for the domestic sale price in general. This has occurred in regard to coal and coke, various kinds of commercial iron, fertilizers and feeding stuffs, cotton, etc. An essential condition for the existence, to a greater extent, of such pools is that the selling party is more or less monopolized.

The operations of these importers' associations have in many cases been facilitated by embargoes or import prohibitions. The importation of coal and coke was made subject to licence as far back as September 1939, and this measure was supplemented by an embargo in April 1940. On the basis of this import regulation, the prices of household coke and of the coal required by small companies, comprising about one-fourth of the total import, were controlled by pooling, at first in conjunction with a subsidy. As from July 1940 also other kinds of coal were pooled. A number of foreign fertilizers were made subject to licence in April 1940.

In regard to some few commodities of an entirely new kind, such as producer gas motors (for driving automobiles), or in the nature of substitutes, such as charcoal (now extensively used for the generation of producer gas), where a rapid increase of the supply has been considered desirable, prices have for the present been allowed to rise rather freely and unimpeded. In this way the desired increase in the supply has been more or less completely attained, and as regards producer gas motors to such an extent that the keen competition has latterly resulted in some fall in price. For similar reasons some latitude has been allowed in fixing the prices of firewood. Though "normal prices" for boiler firewood were fixed on the 1st July 1940, those prices were substantially in conformity with the current market prices, and exceeded the pre-war prices by from 60 to 125 per cent. in different counties. Moreover, many smaller dealers, presumably on the ground of certain increases in labour cost, subsequently charged higher prices than the "normal".

IV. The price trend of industrial goods.

In the subjoined *table 2* the import price index for "fuel and lubricants" is first shown, this time with the year 1935 as a base. It is followed by the wholesale price index, showing the special

indices for important groups and sub-groups in industry. It is headed by the indices for "fuel and lubricants" (index weight 88) and its two sub-groups "coal fuel" (weight 41) and "combustible oils" (weight 34). Here the combustible oils have a considerably larger sales value and index weight than in the import price index, the reason being that the rather heavy ordinary tax on petrol has throughout been taken into account in the wholesale price index, but not in the other index. The rise in the combustible oil index between December 1939 and January 1940 was mainly due to the new surtax on petrol, and the marked rise between June and September to the substantial increase in the last-mentioned tax.

As was pointed out in my previously mentioned article in this quarterly, the prices of household coke and of the steam coal required by small companies had been substantially brought down in the autumn of 1939 with the aid of a State subsidy. For financial reasons, however, this subsidy was gradually wound up during the period from November 1939 to March 1940. (See Government Bill No. 297, introduced at the ordinary session of the Riksdag in 1940.) In the meantime, however, the subsidy, in some measure, kept down the rising tendency of the index for coal fuel. Otherwise the fluctuations in the import prices of coal have been allowed, almost unchecked, to affect the domestic level of prices.

The consumption of petrol is now much smaller than corresponds to its above-mentioned index weight from 1935, and the use of coal has likewise been restricted. At the same time firewood is used on a considerably larger scale than is indicated by its index weight from 1935, which is merely 7. Thus, as the rise in the prices of coal and petrol have been much more marked than the previously mentioned increase in the price of firewood, the index numbers for the entire fuel group might seem to be unduly high. It should be noted, however, that, owing to the shortage of coal and petrol, many industries and transport services have been obliged to resort to heating with firewood: this has entailed heavier expenses for the same amount of heat and has actually raised the costs of production in a greater degree than is indicated by our fuel index.

Within the large group "iron and metal goods"



Table 2. Industrial goods prices.

(base 1935)

	1939		1940			
	Aug.	Dec.	March	June	Sept.	Dec.
Import price index						
Fuel and lubricants . . .	132	247	304	¹ 193	221	—
Wholesale price index						
Fuel and lubricants . . .	119	200	256	183	236	268
Coal fuel	134	265	363	² 199	237	271
Combustible oils . . .	104	134	152	157	238	271
Iron and metal goods . .	117	146	149	156	157	160
Pig iron etc.	133	191	182	189	192	193
Intermediate products of iron	125	183	192	206	201	201
Iron manufactures . . .	116	140	142	149	152	153
Other metals	121	185	165	176	178	188
Metal manufactures . .	125	148	153	160	160	162
Machinery and means of transport	110	123	127	130	132	136
Textiles	99	120	133	139	146	163
Textile fibres	91	138	151	156	—	—
Yarns	102	120	140	142	147	158
Textile fabrics	101	125	137	149	151	179
Hosiery	104	118	125	127	129	131
Hides and leather . . .	110	129	136	140	140	147
Hides and skins	111	129	131	126	126	126
Leather	103	126	133	135	138	147
Leather goods	113	131	138	145	145	152
Rubber and rubber goods .	77	86	91	98	103	110
Chemical goods	104	135	147	155	158	153
Fertilizers	102	119	135	135	136	144
Paper goods	110	130	143	137	141	146
Pulp	106	150	195	—	—	—
Paper	108	116	127	129	129	129
Wood goods	128	148	150	146	146	153
Stone, clay and glass goods	101	111	113	120	120	121
All industrial products . .	110	133	143	144	150	158

with 383 weight units, the sub-groups "pig iron and ferro-alloys" (weight 8) and "intermediate products of iron" (weight 71) have shown a particularly marked rise owing to the great cost of fuel. Whereas the fuel index fell sharply from March to June 1940, these two indices for iron goods continued to rise, which was chiefly due to the forced replacement of coal by firewood and, as regards the intermediate products, also the use of charcoal pig iron in lieu of coke pig iron and scrap. The index for "iron manufactures"

(weight 65) showed a much smaller rise than that for the two groups just mentioned. Similarly, the index for "metal manufactures" (weight 53) rose less than that for "other metals" (weight 18), the importation of which had encountered many difficulties. Least of all has been the rise in the index for the large group "machinery and means of transport" (weight 160). Thus, the further we get away from the basic raw materials, the less marked is the rise in price. As regards "other metals" we observe a considerable fall in price between December and March, which appears to be connected with the previously mentioned restrictions in civil consumption, in accordance with the agreement between the Industrial Commission and the metal dealers. Metal manufactures nevertheless continued to rise owing to the previous increase in metal prices.

The considerable group "textiles" (weight 205) includes the sub-groups "textile fibres" (weight 25), which are largely imported, and "yarns" (weight 35). The main group comprises also "textile fabrics" (weight 87) and "hosiery" (weight 25). It will be seen from the table that the price index for hosiery has risen considerably less than the indices for yarns and fabrics, and the latter in turn less than the index for textile fibres. The rise in the price of the last-mentioned goods was due chiefly to difficulties in importation. This parallels the price trend for corresponding stages of production in the metal group. It should be noted, however, that, in view of the readjustments which have taken place during the war in regard to various kinds of raw materials and products, it is a little unsafe to make index comparisons with the pre-war period.

The group "hides and leather" (weight 53) comprises three sub-groups "hides and skins", "leather" and "leather goods". The group "hides" consists partly of domestic hides, the supply of which has been plentiful owing to the increased slaughter of cattle, partly of foreign hides and skins, the importation of which has to some extent continued even after April 1940, via Petsamo. The price trend in the heterogeneous group "chemical goods" (weight 76) and in the groups "rubber and rubber goods" (17) and "fertilizers" (15) is likewise shown in table 2.

The group "paper pulp, pasteboard and paper"

² The index figures for coal and coke after April are based entirely on German quotations.



(abbreviated in the table to "paper goods") should, strictly speaking, be designated "paper pulp, paper and print", seeing that out of the entire "weight", 87, more than half, namely 51 units, consists of printed matter, for which, however, no price index figures are published. The marked rise in price in the relatively small sub-group "pulp" (weight 6) up to March 1940 was evidently due to a keen demand from importing countries, and is of considerable interest. This in fact indicates that, if Sweden's exportation westwards had been allowed to continue, such a trend might have entailed inflationary effects on our price level.

Finally, we note the groups "wood goods" (weight 80) and "stone, clay and glass goods" (55), comprising building materials and household utensils. Owing to the slowing-down of building activity, these two groups have shown a relatively slight rise in price. Other factors which have conduced to this moderate downward trend are, as regards pottery and glass goods, the small general demand for household utensils and, as regards wood goods, the cessation of westward exportation after April 1940.

The price index for all industrial products, which is given at the end of the table, comprises all the preceding group indices and, in addition, certain foodstuffs and feeding stuffs. This index illustrates the general price advance which occurred between August and December 1939 in consequence of the outbreak of war and subsequently continued at a slower pace till March 1940. Between March and June this movement was interrupted and, a stabilization of this average price level set in. The aforementioned reductions of the prices of woodgoods and papergoods and of the inland price quotations on coal and coke now counterbalanced the continued rising in other ware prices.

This stabilization of prices may seem surprising: it might have been supposed that, after the events in April 1940, there would have ensued, instead, a general rise in the prices of scanty goods, due to hoarding of a panicky character, such as occurred immediately after the outbreak of the war. The general public, however, owing to the reduction of real incomes and increases in taxation, had less money available for hoarding purposes than in the autumn of 1939. As regards

trade, reduced liquidity and the restriction of bank credits tended in the same direction. By this time, moreover, State control of prices and production had become sufficiently effective to counteract all panicky tendencies.

After June 1940 a new general price advance set in, which became more marked from September. It was mainly due to a rise in the prices of a number of German imports. The shrinkage of the domestic stocks of various goods operated in the same direction.

V. The price trend of agricultural produce and foodstuffs.

Before the war annual measures for the control of the agricultural market had enabled the Government to regulate the prices of cereals and dairy produce and to exercise its influence on the price trend for other agricultural produce. During the war this existing system — with the Agricultural Board, subsequently converted into the Food Commission, as an executive organ —, could be followed up without much difficulty, and was considerably extended.

The wholesale price indices for various agricultural products and foodstuffs are shown in the subjoined table 3. In view of the importance of fertilizers for agricultural production, the index for that commodity is reproduced, and is given at the head of the table. It is followed by the index for "cereals and cereal products" (weight 106) and its sub-groups "unmilled cereals" (weight 40) and "milled cereals" (37). That the first-mentioned of these two sub-groups indices in August 1939 was so far below the last-mentioned was partly due to the fact that the new crops had then been just put on the market; another reason was that the wheat duty then amounted to 2.5 öre per kg, as compared with 1.5 öre on an average during the base year 1935.

The group "feeding stuffs" (weight 24) comprises both domestic and imported agricultural and industrial products. The large group "animal foodstuffs" (weight 336) includes the main sub-groups "live stock and meat" (140) and "dairy produce" (152). Owing to the above-mentioned measures for the control of the market, the prices of dairy produce had been raised considerably



from 1935 to 1939, which is reflected in the index figures for August 1939.

The last group in the wholesale price index (weight 263) is officially termed "other vegetable foodstuffs", but should, properly speaking, be designated "other foodstuffs and luxuries": it is a large, but very heterogeneous, group. By far the largest sub-group "other goods" (weight 185), for which no current index numbers are published, comprises, for example, such heterogeneous articles as potatoes, fruit, margarine, chocolate, alcoholic liquors (weight 45) and tobacco products (47). For certain minor sub-groups, such as "sugar and starch" (weight 40) and "coffee etc." (28) index numbers are published: they will be found in the table.

Immediately after the outbreak of war the rather high excise duty on oil cakes was abolished, and shortly afterwards also the large import duties on maize, bran, etc. In virtue of the prohibition on the importation of such feeding stuffs without a licence, the importation and sale thereof was concentrated in an importers' association named "*Foderintressentföreningen*", which, like other similar associations (see above), has pooled the prices. Despite these measures, the rise in the prices of feeding stuffs from December to March, as will be seen from the table, was rather considerable. The same remark applies also to fertilizers. As regards feeding stuffs, however, the rising trend afterwards continued, whereas the prices of fertilizers were stabilized between March and September. Agricultural costs of production have also been gradually increased by a rise in the prices of fuel, machinery and materials of various kinds.

In view of the increase in the costs of production after the outbreak of war, and in order to stimulate the production of foodstuffs, the Swedish Government, in a Bill (No. 66) introduced at the special session of the Riksdag in the autumn of 1939, proposed considerable rises in the prices of most agricultural products. The Bill was approved in committee with some minor amendments and was thus passed by the Riksdag. In accordance with a measure adopted at the preceding ordinary session of the Riksdag, the prices of wheat and rye had been bolstered up by purchases for State account and had been

maintained during the autumn at kr. 16:50 and 16:—, respectively, per 100 kg, but, in view of increasing costs of storage, were to be allowed to rise to kr. 18:— and 17:50, respectively, during the summer of 1940. The system adopted, instead, in accordance with the measure passed at the special session, was that the Government should guarantee to purchase in the summer of 1940 any then remaining supplies of wheat and rye at a price of kr. 21:50. This arrangement was reflected in the rise in the prices of unmilled cereals which set in about March 1940 and became more marked in June. In order to prevent a corresponding rise in the prices of milled cereals, the wheat duty was at the same time reduced to 0.5 öre per kg, and a special milling subsidy was granted to the rye flour mills. The consequent stabilization of the price trend for milled cereals is reflected in the table.

From July 1939 to June 1940 the domestic price of butter was maintained at 3 kronor per kg. In connection with the above-mentioned Government Bill No. 66, a desire was expressed at the special session of the Riksdag in 1939 that the price of dairy milk should be raised somewhat. The seasonal grant for the equalization of the net price (i. e. the price after deduction of the so-called milk levy) of dairy milk was raised from 0.3 öre per kg in August 1939 to at least 2 öre in December and March, with a corresponding rise in the price of dairy milk above its butter value. And, contrary to the procedure in preceding years, this seasonal grant was not reduced after the month of March. Owing to these measures, the index for dairy produce (see table 3), which had risen somewhat from August to December 1939, afterwards remained quite stable till June 1940. — As regards live stock and meat the rise in price was very slow till March, afterwards somewhat more rapid.

In April and May 1940 the Swedish Agricultural Association compiled elaborate estimates of the trend in the income and expenditure of the farmers. In these estimates (which are embodied in the Agricultural Bill referred to below) the years 1935—1937 are taken as the base period, and the physical volumes of all products sold and procured in following years have been considered to be exactly the same as during the base



period. The investigation relates to goods and articles procured by importation or from other domestic industries, but not from other farms. It also includes estimates of revenue on capital, whether borrowed or not, as well as of the wages of all agricultural workers. For the purpose of these estimates, the farmers themselves are assigned the same wages as the so-called "*statare*" (permanently engaged farm labourers paid partly in kind), and their families the same wages as hired servants. All products in kind included in the wages have been valued at the current sale prices of the products at the time in question.

According to these estimates, the expenditure of the Swedish farmers during the financial year 1938/39 amounted to 1,450 million kronor, out of which sum 817 million kronor represents wages, and afterwards rose up to the first quarter of 1940 at the rate of 192 million kronor per annum, of which 107 million kronor is accounted for by additional expenditure on wages. The heavier wage bill was due partly to increases in cash wage rates in accordance with the collective agreements between unions of employers and workers in the autumn of 1939, partly, and to a somewhat greater extent, to a rise in the prices of the farm products included in wages paid in kind. In index figures the expenditure is estimated to have risen between the two periods from 110 to 124, or by 13 per cent. On the other hand, owing to the rise in the prices of agricultural produce shortly before and during the war, the farmers' income is estimated to have risen, in index numbers, from 112 to 129, or by 16 per cent. Thus the Swedish farmers during this period appear to have been slightly over-compensated for their increased expenditure.

In view of the results of this investigation, it was resolved at the ordinary session of the Riksdag in 1940, in connection with the Agricultural Bill (No. 276) then introduced, that immediate improvements in the prices of agricultural produce should be supported by the Government to a minor extent only. In conformity with the Government Bill, however, the price of butter was raised at the beginning of July by 25 öre per kg. to 3 kronor 25 öre, with a corresponding rise in the price of dairy milk. The moderate rise

in the index number for dairy produce in September was due to these increases in price.

Soon afterwards an important new factor manifested itself, namely the harvest returns, which, generally speaking, were very poor. The minimum purchase prices for wheat and rye were accordingly raised from kr. 21:50 to 25 kronor per 100 kg, which was reflected in the very considerable rise in the index number for unmilled cereals in September. At the same time, however, the Government granted the flour mills a milling subsidy at the rate of 4 kronor per 100 kg, in order to enable the price of wheaten flour to be maintained at its previous level. On the other hand, the price of rye flour, in respect of which a subsidy of 2 kronor per 100 kg had previously been granted, now rose somewhat, which entailed a slight rise in the September index number for milled cereals. Moreover, owing to the bad harvest, there was a considerable rise in the prices of domestic fodder, with a corresponding rise in the index for feeding stuffs.

At the beginning of October the Agricultural Association submitted to the Government a memorial, in which it was estimated that the farmers' expenditure, owing to the rises which had occurred up to the present in prices and wage rates, but with due allowance for the reduced consumption of fertilizers and feeding stuffs, had increased relatively to the financial year 1938/39 by 15 per cent. On the other hand, in consequence of the bad harvest and the resulting decrease in the production of animal foodstuffs, the farmers' income, despite the rise in the prices of agricultural produce, had been reduced relatively to 1938/39 by 0.5 to 2 per cent. The general result was that the level of income, relatively to the level of expenditure, had fallen by nearly 200 million kronor as compared with 1938/39.

The outcome was that in the course of October the price of butter was raised to kr. 3:55, with a corresponding increase in the price of dairy milk; furthermore, in connection with an embargo on bread cereals (wheat and rye) the minimum purchase price was raised to 27 kronor per 100 kg, and the milling subsidy to kr. 6:35 per 100 kg. This was reflected in a continued rise, up to December, of the index for unmilled



cereals, whereas that for milled cereals rose merely in a slight degree. Fodder grain was likewise placed under embargo about the same time, and the minimum purchase prices were considerably raised as compared with those paid in the summer.

In the middle of November negotiations between the Government and representatives of the Agricultural Association led to an agreement, in accordance with which the price of butter was to be further raised to 4 kronor 5 öre. The State grant for the equalization of the price of dairy milk, however, was now reduced from about 2 öre to 1 öre per kg; on the other hand, the dairies received a "contribution to costs" of 20 million kronor. By these measures and other rises in price after the beginning of October it is estimated that the above-mentioned decrease of nearly 200 million kronor in the farmers' net income will be compensated as to about half. (In accordance with the agreement, the remaining reduction in income is to be partly compensated by fodder subsidies etc., to small farms and farms especially affected by the failure of the harvest.) The increase in the prices of butter and milk accounts for the marked rise of the index for dairy produce in December.

Owing to the stoppage of the export of bacon and pork, the domestic supply of that meat was rather considerable during the first half of 1940, and, with the aid of a State subsidy, the excess supply was warehoused in cold storage establishments. But, as the number of coverings early in the year was considerably less than usual, the supply of pork and bacon in the latter part of 1940 was below normal, so that prices rose. During the latter part of the year, owing to the shortage of fodder and the high prices of feeding stuffs, cattle were slaughtered and beef was offered on a considerable scale. The surplus supply of beef was, however, stored on an increasing scale, with the aid of a State subsidy, so that beef prices, which had fallen somewhat during the third quarter, again rose considerably during the last quarter of the year. This price trend is reflected in the index for live stock and meat, which during the period from September to December showed an unusually marked rise.

In the autumn of 1939 the duties on tobacco

Table 3. *Prices of agricultural products and foodstuffs.*
(base 1935)

	1939		1940			
	Aug.	Dec.	March	June	Sept.	Dec.
<i>Fertilisers</i>	102	119	135	135	136	144
<i>Cereals</i>	106	118	120	124	133	140
Unmilled	99	124	128	135	155	166
Milled	115	120	119	121	123	127
<i>Feeding stuffs</i>	109	130	137	144	157	163
<i>Animal foodstuffs . .</i>	121	128	130	134	144	164
Live stock and meat	122	125	127	135	140	157
Dairy produce . . .	123	131	132	132	142	168
<i>Other foodstuffs and luxuries</i>	101	114	124	137	132	144
Sugar and starch . .	112	115	116	123	123	129
Coffee etc.	94	127	127	135	139	152
<i>All agricultural prod.</i>	117	127	133	139	143	162

products and spirits were raised very considerably, which markedly conduced to the rise in the index for "other foodstuffs and luxuries" (table 3). In December 1939 an excise duty on coffee was introduced, which raised the index for that commodity. The rise in the index for "other foodstuffs and luxuries" from December 1939 to March 1940 was partly due to the new taxes then levied on malt liquors and effervescing drinks, but also to a substantial rise in the price of potatoes, owing to the stocks having been damaged by frost. But, after the new potato crop had been brought into the market, the price of potatoes fell very considerably during the third quarter, which markedly conduced to the fall in the index for "other foodstuff" from July to September. Finally, from September to December the index for this main group showed a very considerable rise, which was partly due to a high supplementary duty on margarine, accompanied by a corresponding rise in margarine prices.

The last item in table 3 is the index for all agricultural produce. It includes live stock and meat, dairy produce, milled cereals, potatoes, etc., but not products of the foodstuffs industry proper, such as milled cereals, etc. The index shows that the said products, on an average, rose considerably in price till December 1939, after which the upward trend slowed down till September. From that month to December 1940, how-



ever, a marked rise once more set in, owing to the failure of the crops and the Government regulations which it necessitated.

VI. General tendencies.

The subjoined *table 4* shows firstly the general import and export price indices, this time with 1935 as a base year, and afterwards the wholesale index for domestic prices. It will be seen from the table that the import price index as from December 1939 was considerably above the domestic general index for wholesale prices, and that this disparity was accentuated in September and December 1940. From this it may be inferred that the rise in import prices was the main factor that had conduced to the general rise in domestic prices.

The export price index, broadly speaking, was closely on a level with the domestic general index, towards the end of 1940 somewhat below it. From this it may be concluded that the rise in export prices was mainly due to rises in the prices of imported and domestic requisites for production for export industries. In March 1940, however, the export price index was considerably higher than the domestic general index. Inflationary tendencies emanating from export trade were then evidently beginning to affect the domestic price structure, though they were eliminated by the subsequent trend. If this had not occurred, reductions in the rates of exchange should have been called for in order to prevent inflation.

Table 4 afterwards shows the previously given indices for all industrial products and for all agricultural products. The firstmentioned index, as above mentioned, includes also some products belonging to the foodstuffs industry. Up to March 1940 the industrial index rose much more rapidly than the agricultural index. Afterwards the agricultural index rose at a greater pace than the industrial index, from March till June, and still more from September to December. Seeing that the industrial index has a total weight, namely 1,336, which greatly exceeds that for the agricultural index, 423, the trend of the general index has throughout been determined in a far

Table 4. General index.

(base 1935)

	1939		1940			
	Aug.	Dec.	March	June	Sept.	Dec.
Import price index	110	161	174	175	184	211
Export price index	114	135	152	144	145	155
Wholesale price index						
General index	111	132	140	143	148	159
Industrial products . . .	110	133	143	144	150	158
Agricultural products . .	117	127	133	139	143	162
Unfinished goods	116	143	153	152	159	175
Finished goods	105	120	127	133	136	143
Consumption goods . . .	108	118	126	133	137	150

greater degree by the price trend of the industrial products in question than by that of agricultural products.

The table also shows an index for "unfinished goods" with a total weight of 954, and an index for "substantially finished goods", with a total weight of 878. It will be seen that the first-mentioned index up to March 1940 rose much more rapidly than the last-mentioned, which was chiefly due to the marked rise in the prices of imported raw materials during this period. From March to June the index for unfinished goods was stabilized, whereas that for finished goods continued to rise moderately as a "lag" effect of the preceding rise in the prices of unfinished goods. After June, and especially after September, the index for unfinished goods rose more rapidly than that for finished goods. This was due to the previously mentioned rise in the prices of raw materials imported from Germany as well as of agricultural produce.

The last item in the table is an index for consumption goods. This index, the total weight of which is 829, comprises principally finished goods, but also certain "unfinished" goods, such as meat, milk for consumption, potatoes and fruit. This index mainly followed the price trend for finished goods, but from September to December 1940 it was evidently affected also by the price trend of agricultural produce coming under the head of "unfinished" goods. This consumption index is of particular interest in judging the effect of the wholesale price trend on the cost of living.



PROFIT RETURNS AND TAXATION AT A TIME OF INFLATION

BY PROFESSOR ROBERT KRISTENSSON

The general connection between returned and taxable profit.

A general principle in the taxation laws of the Scandinavian countries is that a profit shall not be taxed until it has been earned or received in cash. This principle is followed, generally speaking, in the taxation of income derived from agriculture, where the so-called "cash rule" is adopted, that is, the income is not assessed until it has been paid, or received, in cash. For a company a strict application of this principle would as a rule be impractical. It should be noted, on the one hand, that in accordance with commercial practice and book-keeping, the income is regarded as already received on the sale of the goods, even if they have been sold on credit. On the other hand, a business man does not regard the entire expenditure on a machine or the like as a charge on the year in which it was procured, but distributes it over the estimated "life" of the machine, etc. As the law of taxation here deviates from the consistent application of the "cash rule" (or the principle of realized profits), another basis must be found. As a general basis for the assessment of taxable profit it has been decided to accept *the accounts of a firm or company, so far as they are in conformity with good commercial practice*. For obvious reasons, however, special regulations have been laid down as a safeguard against undue irregularities or arbitrary procedure in the estimation of profits according to the accounts.

The procedure elaborated by the Swedish taxation authorities is to the following effect. The taxpayer, on a schedule appended to his return of income from business may make certain additions to the net profit shown by his books, and may afterwards claim certain deductions, permissible in accordance with special regula-

tions. Such additions include, for example, the sale value of own products consumed by the owner, personal expenditure which may have reduced the net profit, public taxes, depreciation entered on the books, and losses on claims. Deductions are then allowed for earnings from real estate or other branches of business and which had not previously been deducted, as well as for such depreciation as are permissible in accordance with the taxation ordinances. By this procedure the book figures are checked so as to obtain the taxable profit from business.

In such circumstances it is obvious that certain errors in the company's own calculations of profit as shown by its books will affect also the taxable profit. Whilst some of these errors could be avoided by the companies themselves, others are such that special provisions in taxation laws, or a change in taxation practice, would be required for their rectification. In the following a brief review will be given of some fundamental problems of income tax returns, of special importance in the present situation. Common errors in the accounts of Swedish companies will be illustrated by examples taken from an official enquiry by the author relating to conditions during the former world war. We shall then briefly show how companies should — and in accordance with the present taxation regulations may — arrange their book-keeping so as to eliminate, as far as possible, errors in accounts in the present situation.

Errors in accounts which affected taxation during the years 1914—1917.

During a general price advance or price decline considerable errors occur in book-keeping of the traditional character. In order to convey an idea of the approximate magnitude of such errors, some figures taken from the above-indicated en-



quiry, which relates to Swedish joint-stock companies during the years 1914—1917, will be given below.

1. During the period from about 1918 to 1920 there was much discussion regarding the way in which the calculation of profits had been affected by unduly low figures for depreciations in the accounts. Being based on the *pre-war* value of the krona, it was found to have been absurdly low, considering that the purchasing value of the currency had fallen to about one-third. The book profits had consequently been reckoned at unduly high figures. Errors of this nature were particularly marked in the case of companies possessing large plants, such as manufacturing industries, railways, power companies, etc. A plant which in 1913 had been erected at a cost of one million kronor and the depreciation of which, at the rate of 2 per cent, should have been 20,000 kr/13,¹ was written off in 1917 merely 20,000 kr/17.¹ Had the purchasing value of the krona been reckoned according to the general price level (as expressed by the index for wholesale prices), 20,000 kr/13 would have corresponded to 56,700 kr/17.

The errors made *on this count alone* in calculating the book profits of Swedish companies during the former world war are shown in the following table:

1914	1915	1916	1917
8 mill. kr/14	13 mill. kr/15	18 mill. kr/16	45 mill. kr/17

For the entire group of Swedish joint-stock companies, taken together, these errors may not seem particularly impressive: they were nevertheless very considerable for individual companies possessing large plants. Bearing in mind that such merely nominal profits were liable not only to the ordinary income tax but were also taxed as excess profits, these are highly significant examples of the way in which the State sweeps in large revenue from taxation during a period of inflation. Also the dividends, which then flowed very copiously, were partly based on illusory profits.

2. The relative importance of such errors in writing-off must, however, be said to have been

¹ The signs kr/13 and kr/17 designate the Swedish krona at its average purchasing value in 1913 and 1917, respectively.

considerably exaggerated, as compared with certain other sources of error which were overlooked, but which were of still greater significance.

Among such errors we note particularly those which arose from incorrect *valuation of stock-in-trade*. We are now realizing that a normal stock of goods, as well as a stock of raw materials or semi-manufactures, is to be regarded as a permanent asset, needed throughout times of prosperity and depression. A change in the prices of goods in stock should therefore not be allowed to affect the valuation of the stock, no more than a rise in the cost of building materials should be permitted to affect the valuation of existing buildings. Faulty methods of such a nature were, however, quite common during the former world war. The stocks were valued at the purchase prices, and the valuations were thus gradually raised according to the general price advance. The consequences were errors in accounts, or fictitious profits, the magnitude of which as regards the Swedish joint-stock companies may be estimated thus:

1914	1915	1916	1917
45 mill. kr/14	107 mill. kr/15	180 mill. kr/16	270 mill. kr/17

3. A third large group of errors in accounts is connected with the fact that, irrespective of changes in commodity prices, claims and liabilities are as a rule fixed at their nominal amounts, and thus are reduced in real value on a general rise of prices. Companies having a large surplus of claims, such as banks, will thus lose real values, whereas companies having a large excess of liabilities, such as railways, will gain, owing to the reduction of their liabilities in real value. Whereas the two previously mentioned factors will tend uniformly to affect all kinds of companies, the third group of errors will affect them in opposite ways, according as the company has a surplus of claims or an excess of liabilities.

During this period the Swedish railways were favoured by a real increase in values, not shown in the balance sheets for the said years. The total increase for the railway companies over and beyond their returned profits was (as expressed in kr/13):

1914	1915	1916	1917
40 mill.	30 mill.	30 mill.	19 mill.



This increase in values, not being shown in the accounts, was not taxed. This, however, seems quite fair, seeing that those companies lost amounts of similar magnitude when deflation supervened.

The other extreme is represented by banks and insurance companies. During this period the banking companies returned rather considerable profits, which, however, in view of the fall in the purchasing value of the currency, were more than counterbalanced by losses in real capital. The returned profits exceeded the figures as subsequently corrected to allow for inflation by approximately the following amounts, reckoned on the basis of returns from Swedish banking companies, and expressed in million kr/13:—

1914	1915	1916	1917	
Circa 120	75	80	80	Fictitious profits in kr/13

In reality the real capital of the banks was *reduced* during these four years, owing to the inflation, by about a quarter of a milliard kronor/13. Instead profits were shown in the banks which for those four years amounted approximately to about 110,000 kr/13. Expressed in the monetary value of the respective years, the profits according to the books amounted *nominally* to about 225 million kronor.

It seems most unfair that the State should thus have laid its hand on profits which were merely nominal, being due to errors in calculation. Though it may be objected that the banks were compensated on the advent of the deflation, owing to their excess of claims over liabilities, we are well aware that such compensation was not realized in practice, owing to heavy losses on credits granted. In view of these considerations, the banks should at any rate have been exempted from the excess profits duty. Instead, they were heavily taxed for such profits, besides having to pay the ordinary tax on income and capital. This was partly due to the fact that they had returned their profits for 1917 at an amount nominally exceeding by 57 million kronor their profits for 1913 —, whereas their real capital had actually been seriously reduced.

If we examine the combined results of these three groups of errors, the sums which they re-

present will be found to mount up to very large totals for *individual* companies. The profits actually returned, when compared with those verified after correction, show that more than three-fourths of the total number of companies, in making up their accounts, had committed errors amounting to at least 50 per cent of the book profits, whilst as regards more than half of them the corresponding figure was over 200 per cent.

It should be noted that the foregoing figures relate only to Swedish joint-stock companies. In retail trade and certain other branches of commerce, however, there are a large number of firms not registered as joint-stock companies. Hence it follows that errors in accounts, especially as regards the valuation of stock-in-trade, have affected Swedish commercial enterprises in general to a considerably greater extent than is indicated by the above figures.

Errors in accounts and the system of taxation during the period of inflation 1914—1917.

In Sweden, as pointed out above, the taxation of companies and firms is based substantially on the returned profits, checked in certain ways. Owing to the errors made in computing depreciation and the somewhat elaborate procedure, previously described, for "checking" the net profit, the State managed to squeeze out of the Swedish companies large revenues derived from the taxation of purely nominal profits, which were actually chargeable, to a considerable extent, also for excess profits duty; in 1917, as shown above, these fictitious profits amounted to some 45 million kronor. This fell particularly hard on certain industries, on shipowners and, in general, on companies possessing large fixed assets.

A far more serious matter, however, for the business world in general was the excess taxation entailed by errors in the valuation of stock-in-trade, raw materials and products in commercial firms and industrial companies. Owing to errors of this nature, as shown above (point 2), the Swedish joint-stock companies in 1917 overestimated their profits by about 270 million kronor; for Swedish business enterprises in general the



corresponding total seems to have amounted roughly to half a milliard kronor. These fictitious earnings were for the most part taxed both as ordinary and excess profits: in other words, large amounts of capital were confiscated.

These errors in valuation were aggravated by the interpretation of the regulations on the subject in the taxation laws then in force. From a standard manual of taxation — several editions of which were issued during the period — we quote the following passage from the 1924 edition: —

“As regards the valuation of a stock of goods, in the ordinary, restricted sense of the term, it may be laid down as a leading rule that such a stock should be entered on the books at the price for which the firm or dealer could buy the goods at the date when the accounts were made up.”

This rule was actually followed by a number of Swedish firms and in many cases led to the inflation of profits. The resulting confiscation of capital from commercial and industrial companies may be illustrated by the following example: —

A company dealing in wood goods had in 1913 a stock of about 100,000 cubic feet of wood, valued at 1 krona per cubic foot, making a total of 100,000 kronor. The purchase value of this stock gradually rose, and in 1918 was estimated at about 300,000 kronor. This valuation showed a nominal “profit” of 200,000 kronor, which might well be designated as “unrealized” profit, seeing that the stock of timber was as large as before, and had to be kept constant. The total nominal profit of 200,000 kronor resulting from this overvaluation was severely taxed both for the ordinary income tax and for excess profits duty. It may be presumed that these taxes amounted to some 150,000 kronor. Moreover, the profits thus returned were taken as a basis for dividend policy and large dividends were actually distributed — that too without due regard to the incidence of taxation. Even at the peak of the inflation the effects were rather disastrous: owing to errors in the computation of the profit, an asset with the value of about 100,000 kr/13 or 300,000 kr/17 (which represents approximately the same real value) was taxed for about half that amount, or

approximately 150,000 kr/17. Half the value of the asset had thus been lost. Then, when deflation supervened and values dropped and taxes remained as liabilities reckoned in a greatly depreciated currency, but had to be paid in a currency which had markedly appreciated, the ruin was completed. For simplicity's sake, it may be assumed that the liability of 150,000 kronor for taxes remained, whilst the value of the stock had fallen to the same amount, in which case the entire asset had been confiscated.

The third source of errors in accounts, namely fluctuations in the real value of claims and liabilities, could not, of course, be obviated by amendments in taxation laws. The only possibility of avoiding the disastrous consequences thereby entailed for companies having a surplus of claims over liabilities was by drastic writing-down of the claims during the period of inflation; this expedient was apparently resorted to in some measure, though not on such a scale as to obviate losses of real capital. During the ensuing deflation, when the real value of the claims was rising, this increase in assets was reduced by the heavy losses on those claims. The total effects of the deflation on companies having a surplus of claims were thus losses of capital, which were particularly heavy in the case of banks and other financial institutions.

Avoidance of errors in the valuation of fixed assets.

The foregoing observations may serve to give a general idea as to how accounts should be ordered with a view to avoiding illusory profits at a time of general price advance. It may be useful, however, to set forth this matter in somewhat greater detail.

In order to avoid errors in computing depreciations, the book entries should be adjusted year by year according to the price level or purchasing value of the currency. There being no uniform measure of the general purchasing value of money, we may adopt as a gauge thereof the average of the wholesale price index and cost-of-living index or, in lieu of the latter, the consumption price index computed by the Riksbank.



There is also another available method of correction. The writing-off may be based on the present value of the fixed assets, or the value which they would have if procured now. This latter mode of computation is particularly well adapted for the calculation of costs. For example, if the original value of the buildings had been entered at 500,000 kronor, but building costs are now 30 per cent higher, the writing-off for that year should be increased by 30 per cent. Though such a procedure might not be approved by the taxation authorities in the income tax return, it is quite permissible in the accounts, seeing that, as previously explained, the necessary adjustment may be made on the income tax schedule.

As regards buildings, machinery, etc., it should further be noted that sums should be reserved for future repairs. This should be done in the year when the wear and tear takes place. Under the head of "Reserve for repairs", or other such entry, a sum may be set aside to allow for the estimated cost of repairs.

If new buildings are erected, or machinery etc., is procured, at a time of rising prices, it is a wise precaution to write off the *excess price*, in the year in which such assets were procured.

The same principle may be extended in the following way. If it is anticipated that certain assets will have to be procured at an excess price in a succeeding year, it is desirable to begin at an early date to reserve monies in order to write off the excess price when the assets are eventually procured.

The question then arises: *how can these various measures be carried out in the income tax return* in conformity with existing legislation and the taxation ordinances in particular?

It may be briefly replied that there are no provisions in Swedish civil law to prevent the adoption of such methods for avoiding errors in writing-off etc. On the other hand, they cannot be directly adopted in computing taxable income in the tax schedule. In regard to writing-off, Swedish firms have the choice of two alternatives: writing-off in accordance with a plan drawn up in advance, or "free" writing-off. In neither case is it permissible, in reckoning deductions, to take into account *changes in the purchasing value of*

the currency. Thus only the *nominal* initial value may be written off — neither more nor less. On the other hand, some latitude is allowed in distributing the writing-off over different years, so that it is possible (more especially where writing-off is "free") to increase it in a particular year. The right so to do is granted to joint-stock companies, cooperative societies, mutual insurance companies and savings banks on application, subject to certain conditions.

To recapitulate, in cases where writing-off may be freely distributed (unless the entire initial cost has been written off) it is possible to avoid being taxed for nominal profits in the present year; but, it should be noted, such taxation will merely be *deferred* to a succeeding year. In the regulations regarding the 1940 excess profits duty it is laid down that deductions for the depreciation of machinery, fittings, buildings, etc., should, as a general rule, be computed on the same principle as those applicable to taxation for the last pre-war year, or, where such a basis of calculation is not possible, at an amount corresponding to *the real depreciation*, reckoned on the basis of the original cost. The deduction for depreciation may thus be increased, for example, in cases where *greater wear-and-tear* is entailed by the expansion of business, even if a depreciation-plan had been drawn up in advance.

It thus appears from these regulations that, so far as depreciation is concerned, even nominal profits are deliberately being taxed. And yet, in the explanatory memorandum appended to the law, it is expressly stated: "The guiding principle governing the new law relating to excess profits duty is that it will be applicable only to increases in real profits and not to fictitious profits".

As a concession to taxpayers, this law contains special regulations regarding "provisional" levy of the tax in certain cases; under these regulations a refund of the provisionally levied tax may be claimed when the "profit" is used in a subsequent year for writing-off the excess price of assets then procured. For most companies this is a poor and almost worthless concession, which has apparently been made for the sake of "principle", and especially in response to the demands



By the end of the second year the stock had fallen below the normal size. In that case too the remainder of the stock is valued at normal price (safe bottom price). Provision must then be made for the replacement of the missing quantity, even if it has to be purchased at the higher price of the day. For this purpose one should reserve a sum corresponding in amount to the missing quantity ($100 - 20 = 80$) and representing the difference between the current price and the normal price ($1.05 - 0.80 = 0.35$). The proper procedure is to debit the Goods Account for



$80 \times 0.35 = 28'$ and to credit the Normal Stock Reserve for the same amount. If replacement goods had already been ordered, the contract price may be substituted for the current price.

The Goods Account of the third year shows how the sum transferred to the Normal Stock Reserve is carried back to the Goods Account, and how at the end of the third year the size of the necessary reserve is computed in the manner indicated.

2. Normal stock method in businesses where the remaining stock can be expressed only in aggregate value and where an approximate price index for the stock as a whole is available.

Let us suppose that a normal stock at the beginning of the year, which at the 1938 purchase prices is valued at 100,000 kronor, is written down to a safe bottom price of 70 per cent, that is, to 70,000 kronor.

Goods Account 1938.

	kr.		kr.	kr.
S. B. normal stock	70'	Sales	300'	
Purchases	270'	S. E. (normal stock) 70'		
Profit	40'	(surplus)	10'	80'
	380'			380'

In the above example the stock, according to the 1938 purchase prices, is valued at the end of the year at 110,000 kronor. The surplus over and above the normal stock is thus $110,000 - 100,000 = 10,000$ kronor. In this case the surplus is valued at the purchase prices, not at bottom price.

Goods Account 1939 alternative 1.
(S. E. larger than normal stock).

	kr.		kr.	kr.
S. E.	80'	Sales	320'	
Purchases	300'	S. E. (normal stock) 70'		
Profit	15'	(surplus)	5'	75'
	395'			395'

On the 31st December 1939 the stock, reckoned at the then purchase prices, is worth 125,000 kronor; the price index for the existing stock is estimated or computed at 120 per cent of the 1938 prices. The normal stock is thus valued at

120,000 kronor/39 and the surplus over normal stock $125,000 - 120,000 = 5,000$ kronor/39.

Goods Account 1939 alternative 2.
(S. E. smaller than normal stock).

	kr.		kr.
S. B.	80'	Sales	350'
Purchases	300'	S. E.	58.2'
Normal stock reserve (20.3 - 11.8 = 8.5)	8.5'		
Profit	19.7'		
	408.2'		408.2'

The stock as at 31st December is worth 100,000 kronor at the 1939 purchase prices. At bottom prices this makes: $\frac{100'}{1.20} \cdot 0.70 = 58.2'$. In order to replace the missing stock (70—58.2) at the 1939 purchase prices there will be required a sum of $\frac{70 - 58.2}{0.70} \cdot 1.20 = 20.3'$. For this purpose the difference between the current price and the normal price: $20.3 - 11.8 = 8.5'$ is transferred to the normal Stock Reserve. This represents a profit which, so far as it is due to a change in the purchasing value of money, is merely nominal, but

Normal Stock Reserve Account (alt. 2)

	kr.		kr.
S. E.	8.5'	Goods Account	8.5'

which in other respects also should be regarded as unrealized, seeing that the firm must see to the renewal of the stock.

In the method here described all figures which result from fluctuations in the prices of an normal stock are distinguished from other figures. Even if goods prices in a particular branch should rise tenfold, whilst the general price level, let us say, was only trebled, rises and falls in the price of the stock will be dealt with in such a way that all such changes are kept apart from the computation of profit.

The normal stock method and the taxation laws.

Now how is the normal stock method viewed in the taxation laws? The fundamental rule for the valuation of goods stocks for the purpose of the State and municipal income tax will be found in the directions for the application of § 41 in



the Municipal Tax Law of 1928. These directions, to which an amendment was added in 1938, run as follows: —

"In the calculation of taxable income, the book valuation of assets intended for sale or consumption in the course of business shall be departed from only where there are very special reasons for so doing."

In the amendment added in 1938 the words "assets intended for sale or consumption in the course of business" are interpreted as follows: "stocks of raw materials, manufactures and semi-manufactures, stock-in-trade, investments made by companies holding funds and by insurance companies in shares, bonds, loans, etc." Thus as regards banks, claims and so forth are placed on a par with stocks of goods.

The "special reasons" for which the taxation authorities might be induced to depart from the book valuation of assets are notably cases where the method of valuation was not in accordance with good commercial practice. The methods described here are completely in conformity with such practice and year by year are being adopted by an increasing number of firms and dealers in different branches. It appears from the above-mentioned article by Professor Sillén that the cautious principles on which the normal stock method is based have traditions in Sweden. Personally I know of several firms which about the time of the former world war had adopted such methods with the assent of the taxation authorities.

A few doubtful cases may arise: May a firm which, for example, at the end of 1938 had entered its stock at the then purchase price, now claim a deduction for writing-down that stock to a still lower bottom price? In general it may be stated that such a procedure would not be approved by the taxation authorities, unless it were justified by particularly serious risks, as where newly purchased goods are "wartime" commodities, which may be expected to drop sharply in price on the conclusion of peace.

On the other hand, there would presumably be no objection to entering the normal stock at the book value which it had at the end of 1938 — whether this value was the price at which it was

then purchased or a bottom price. In such a case *continuity* in the valuation would be maintained, which, generally speaking, is a fundamental principle in book-keeping in accordance with good commercial practice.

Another question which is likely to crop up is this: May a firm which has sold part of its normal stock reserve a sum for replacement by setting up a "normal stock reserve account" or the like? This is in conformity with good commercial practice and should therefore be approved so far as concerns the ordinary income tax.

Also in the *excess profits duty law* of 1940 the normal stock principle has been adopted as far as possible in the assessment of additional income which is to be taxed for the duty.

Thus a constant stock may be valued at the price at which it was entered in the books at the end of the last pre-war year (1938). Any considerable increase in the stock shall as a rule be valued at the initial cost in August 1939. Should a reduction of the normal stock entail the release of a hidden *pre-war reserve*, the taxpayer will be entitled to a corresponding deduction from the assessed additional income (item M in the schedule). The term "hidden pre-war reserve" here signifies the difference between the purchase price in August 1939 and the book value at the beginning of the year of taxation, reckoned on the basis of the amount sold. Corresponding regulations will presumably be embodied also in the new excess profits law.

Thus in certain respects provision has been made in the present regulations for the avoidance of the taxation of fictitious profits as regards firms carrying on continuous business with normal stocks. In such cases, as above mentioned, deduction may be made for the "hidden pre-war reserve", i. e. for the difference in the price of the reduced amount of the stock at the beginning of the war (August 1939) as compared with the book price (the bottom price). But, in accordance with the excess profit duty regulations of 1940, no deduction may be claimed for any difference in price which may have arisen subsequent to the 9th September 1939. If, however, the missing amount of the stock is to be replaced, and if the corresponding sum is reserved in a special "goods



replacement fund", the sum so reserved — which is to be used for writing-down newly procured goods or for the replacement of the stock — will be subject merely to "provisional" taxation. The amount of the "provisional" tax is based on the difference between the price of the stock at the end of the year and the price at the outbreak of the war. The tax is to be *refunded* when replacement goods are procured in a succeeding year and are written down in accordance with certain rules.

As applied in this way, "provisional" taxation is not concerned with the past, but, so to speak, looks to the future. It is particularly useful for firms which are just starting or expanding, and are desirous of avoiding the taxation of nominal or merely temporary profits in cases where, in balancing the books, the stock is found to have diminished below the amount normally required. The procedure is likewise beneficial for all those firms whose stocks tend to dwindle towards the turn of the year, and which have to replace a considerable part of their stock later on in the year.

Provisional taxation may also be granted in respect of profits transferred to a "price fluctuation fund", set up as a safeguard against losses arising from a fall in the price of goods ordered but not yet delivered:

We thus see that the legislators, in this important respect, have paid some consideration to the legitimate demand of business firms that they should not have to pay excess profit duty on purely nominal profits. They can scarcely escape this, however, unless they make proper arrangements for well-ordered book-keeping with correct computation of profits and due writing-off.

There are indeed some gaps in the regulations: it is noteworthy, for example, that firms whose stock of goods was particularly reduced just at the beginning of 1939 are liable to pay excess profits duty. Broadly speaking, however, the legislators must be commended for the consideration which they have endeavoured to pay to the demand that no tax should be levied on fictitious profits. This, however, should not be understood to imply that the excess profits duty as such is warrantable and desirable. In view of the heavy

incidence of the tax on additional profits made during the first year of taxation, it has tended to cripple initiative, and has thus had very detrimental effects on business enterprise.

Valuation of claims with a view to the reduction of errors in accounts.

The financial status of firms whose claims as of the same magnitude as their liabilities is not materially affected by changes in the level of prices. Problems regarding the avoidance of errors in accounts arise chiefly in the case of firms which have a considerable surplus of claims. In accordance with good commercial practice, such firms should not value their claims at a higher figure than the amount which is expected to come in. If a claim is expected to be settled at a time when the purchasing value of money had fallen, its present value will be correspondingly lower. Such grounds for the reduction of claims would, however, apparently be at variance with the existing taxation laws. On the other hand, it is perfectly correct, and indeed necessary, to make such reductions of claims as are warranted by the risk of losses on the grant of credits or on goods complained of or returned. The last-mentioned risk is particularly imminent as regards firms which deal in wartime products, such as certain textiles with an admixture of substitutes.

The question of setting up a contingency fund or the like for meeting future losses on claims should be viewed in a wide aspect, not being merely restricted, for example, to some outstanding claim the loss of which is anticipated. Thus, if a wartime boom is expected to "break", say, after the lapse of two years, sums corresponding to anticipated losses should be accumulated during the whole period of upward trend. This may be effected by setting aside a suitable percentage of the turnover for meeting such losses.

Errors in the assessment of profits due to fluctuations in turnover.

In the present situation errors of this nature may markedly affect the financial position of certain firms. Should they follow the generally



adopted rules for the distribution of costs over different years, a number of firms which had a large turnover in 1940, but which expect a considerably smaller turnover this year, may show a large "excess profit" for 1940, but perhaps a loss in 1941. A procedure which yields such results is by no means satisfactory, whether as a basis for dividend policy or for the assessment of taxes. Proposals have in fact been made for the adoption in Sweden of the system introduced some years ago in Norway, in accordance with which the income tax is assessed on the basis of the "average profit" during a period of three years. This procedure, however, presents various technical difficulties.

But why should not book-keeping be arranged on the same lines as in modern calculations of costs? Nowadays it is considered quite legitimate to reckon the cost of products on the basis of a "normal cost", thus equalizing the differences in the cost of the product per unit which may be entailed by fluctuations in turnover. Most firms which have adopted the system of "free" writing-off presumably endeavour, in some measure, to effect such equalization by means of writing-off. In many cases, however, such as in regard to commercial companies which have comparatively small fixed assets to write off, such a procedure would be of little avail. Is there no other alternative? It is indeed at variance with commercial

practice to anticipate fixed costs, such as wages and salaries, for a coming year. In internal book-keeping, however, the same principle could be applied in another way. A suitable part of the year's turnover of profit could be carried over to a following year by transfer to a "*cost equalization account*". In a succeeding year with a small turnover this sum would be transferred to the new year's profit and loss account, and would then serve to meet the latter year's fixed costs which could not be completely covered out of that year's turnover.

The question whether deductions may be claimed for such a reduction in turnover remains open so far as the ordinary income tax is concerned. In accordance with the new draft law relating to excess profits duty, taxpayers who have set up a "cost equalization account" are entitled to "provisional" taxation for such sums. Provided that the bill is passed as it stands, firms may expect a refund of tax in respect of the sum thus reserved, when it is used for the intended purpose.

A corresponding right to carry over income or profits from one year to another should be introduced also in regard to the ordinary income tax. This would be a much simpler procedure than the computation of an "average profit" for solving the vexed problem of the equable distribution of taxation over good and bad years.



THE ECONOMIC SITUATION DURING THE FIRST QUARTER OF 1941

The General Situation. The first quarter of the year has not entailed any particularly marked changes in the trend of economic life in Sweden. The volume of trade in this country in fact shows continued stability. According to the business activity index of the Skandinaviska Banken, which shows the value of the clearing of commercial paper, the volume of trade during the first three quarters of last year had fallen from 142.6 to 117.9 per cent. of the average quarterly volume in 1929. For the last quarter of 1940 and the first quarter of this year the corresponding figures were 117.3 and 125.1 per cent.

Owing to the commercial blockade the stocks of foreign raw materials continued to diminish, but this decrease is being partly compensated by the production of substitutes on an increasing scale. In building and associated branches as well as in certain export industries capacity was still being poorly utilized. Some of the labour released in these branches of industry has found employment elsewhere. Thus the cutting of firewood, which has proceeded at a more rapid pace than was contemplated in the extensive timber-cutting programme for the present season, has provided employment for thousands of workers, and much man power has also been required for the transport of firewood. Towards the end of the quarter an additional number of conscripts were called up for military service, which tended somewhat to diminish the competition for work.

The unusually severe winter has entailed serious and long-continued impediments to shipping. This has particularly affected the supply of bulky import goods, such as coal and coke, the consumption of which was moreover increased owing to the severe cold. By the middle of December the importation of coal and coke from western Germany had already been stopped by impediments

to traffic through the Kiel Canal. At the end of the year the amount of coke actually imported was about 300,000 tons less than that stipulated by agreement. For a considerable time afterwards shipping in the Baltic was impeded by ice. At the beginning of February the Sound was blocked by pack ice, and shipping traffic between Sweden and Finland was likewise disturbed. In January and February the importation of coal and coke was consequently reduced to merely 32 and 50 per cent., respectively, of the average monthly importation stipulated by agreement for this year. Hence, despite the speeding up of the transports of firewood, serious disturbances arose in regard to the supply of fuel, especially in the larger towns, which had no large reserves of firewood.

The shrinkage of foreign trade during the first two months of this year has affected both the imports and the exports. Seeing that both import and export prices have continued to rise this year, the quantitative decrease in foreign trade is larger than that indicated by the value figures. By agreements concluded during the quarter with both the belligerent parties, certain alleviations have been promised for Swedish shipping through the minefield in the Skagerak.

	Imports	Exports	Surplus of imports
	Million kronor		
Jan.—Feb. 1935	208	163	45
” ” 1936	248	196	52
” ” 1937	276	238	38
” ” 1938	306	279	27
” ” 1939	337	274	63
” ” 1940	425	284	141
” ” 1941	204	132	72

Industrial production since May 1940 has been surprisingly stable. The production index of the Federation of Swedish Industries, which during this period has moved between such narrow



limits as 105 and 107 (1935 = 100), was for January 1941 106, as compared with 107 for November and December 1940. The only Swedish industries in which production has markedly diminished since May 1940 are the textile, clothing and foodstuffs industries.

The textile and clothing industries reached their maximum output in July 1940. Since then it has diminished by 14 per cent. The situation, however, is very dissimilar in different branches of production. Owing to shortage of wood, the worsted spinning and weaving mills have been forced to restrict their output. The carded-yarn spinning and weaving mills, on the other hand, have better facilities for maintaining their production: the admixture of new wool in carded yarn has been reduced from normally 35–40 per cent. to 15 per cent., and larger amounts of long-fibre cellulose wool have been used instead. The cotton spinning mills have likewise been able on the whole to maintain their production: they have hitherto obtained fairly ample supplies of cotton, and they too have made use of cellulose wool on an increasing scale. During the latter part of 1940 the consumption of cellulose wool by Swedish industries was in fact quintupled. From February 1940 to February 1941 the number of workers employed was reduced by 8 per cent. in the cotton mills, by 18 per cent. in the knitted goods factories and by 10 per cent. in tailoring and the clothing industry.

Production in the food industries was reduced by 10 per cent. from December 1939 to September 1940, but was afterwards stabilized at a level 11 to 14 per cent. higher than in 1935. The most marked decrease in production appears to have occurred in the tobacco factories.

The iron and steel industry and the engineering workshops are still largely employed in the making of armaments. In view of the difficulties in the way of the importation of iron and steel, an unusually large proportion of the Swedish consumption is being covered by domestic production. In spite of the war, the export of high-grade steel has continued to some extent, notably to the Soviet Union and overseas countries.

Swedish commercial iron is now being exported only to the other Scandinavian countries, especi-

ally Finland. Most of the Swedish commercial iron works are fully employed, and the production index number for the iron and steel industry was raised from November to January from 126 to 132.

The index number for production in the machine industry fell from 150 in November to 146 in January; this, however, should not be interpreted as an indication of a coming decline in production, as a recent investigation shows that the workshops are now better supplied with orders than in September 1940. Some diminution in the output of producer gas motors may be anticipated. On the other hand, it is expected that production for defence purpose will absorb about one-third of the capacity of the Swedish workshops for a couple of years ahead.

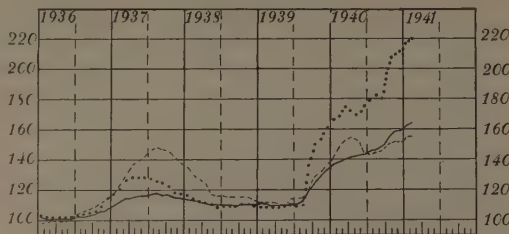
A considerable part of the output from heavy industries and engineering workshops was in fact connected with the extension of the armaments industry, and the number of workers employed increased from February 1940 to February 1941 by 9 per cent. in the engineering workshops, by 4 per cent. in the electric workshops, and by 9 per cent. in the shipyards. It is noteworthy that about 40 per cent. of the total amount invested last year by Swedish industries in machinery falls within the statistical group "mining and metal industry", which includes workshops and shipyards.

The difficulties of the farmers owing to the diminished supply of feeding stuffs and the failure of last years' harvest were naturally accentuated during the winter. In the last quarter of 1940 the output of milk from Swedish dairies was 13 per cent. less than a year before. The slaughter of fat stock increased very considerably in October and November, when the number of cattle killed in slaughter-houses was 79 per cent. larger than in the immediately preceding year. This presumably marked the culmination. In January the figure fell to 30 per cent. and in February to 9 per cent. It appears, however, that it will take some time before the size of the stock of cattle has been adjusted to the diminished supply of feeding stuffs. It is expected that the allocation of oil cake for the next rationing period will not be more than one-fourth of the normal

Board of Trade Price Index.

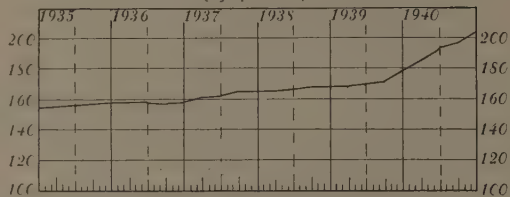
(1935 = 100).

..... Import Goods
 - - - - - Export Goods
 ——— All Goods

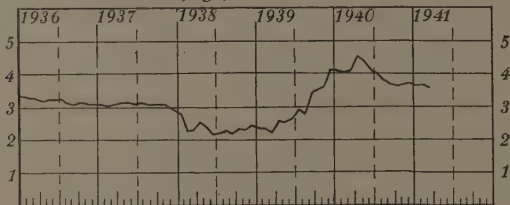


Cost of Living Index.

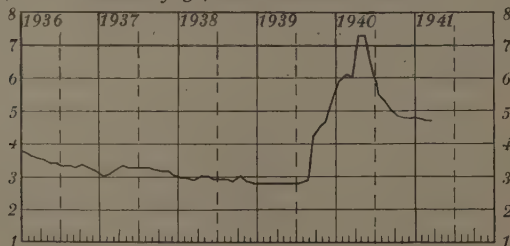
(1914 = 100)



Yield of $3\frac{1}{2}\%$ Govt. Loans.

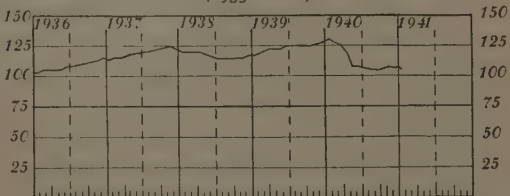


Yield of $3\frac{1}{4}\%$ Industrial Loans.

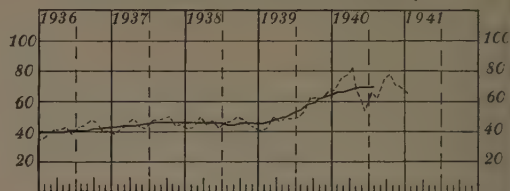


Federation of Industries Production Index.

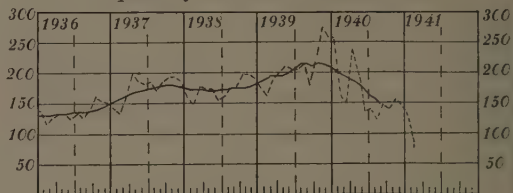
(1935 = 100)



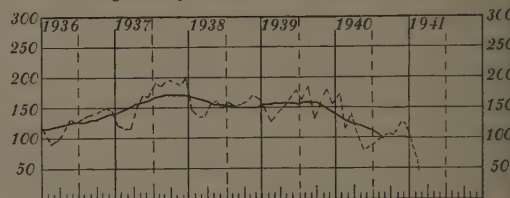
Millions of Axle-Kilometers travelled by Loaded Goods Trucks on the State Railways.



Imports of Sweden in Million Kr.

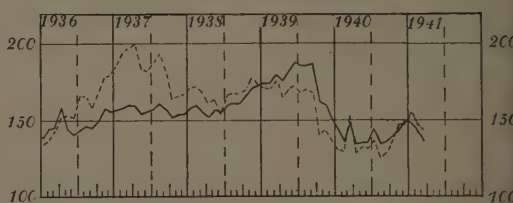


Exports of Sweden in Million Kr.



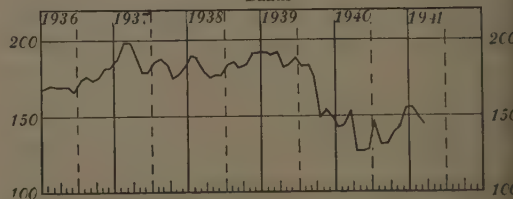
Share Index.

—— Home Industries
 - - - - Other Industries



Share Index.

Banks



In the three diagrams in the upper right hand column the dotted line denotes original figures and the whole line current 12-month averages.



	1936	1937	1938	1939				1940						1941				
	Jan.	Jan.	Jan.	Jan.	July	Oct.	Dec.	Jan.	April	July	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	29
Share Index.																		
Home industries	138	157	158	175	187	161	154	145	134	144	136	139	143	149	148	143	136	135
Other industries	134	186	172	171	169	140	137	130	128	137	128	129	147	147	155	148	143	146
Of which																		
Grängesberg Company	78	177	219	191	178	145	145	131	110	134	128	137	169	171	155	158	149	155
Exporting engineering industries . .	167	223	196	195	188	149	146	133	133	147	141	139	152	152	161	152	149	153
Other, including iron and steel ind. .	148	196	173	181	182	153	149	138	130	138	128	130	151	154	170	157	158	158
Wood-goods and pulp-ind.	108	146	131	124	127	107	104	104	104	110	100	100	112	110	119	115	108	111
Combined wood and iron ind. . . .	143	186	176	200	209	181	177	184	196	195	176	180	208	202	211	202	194	196
Banks	168	189	191	192	183	149	149	143	127	147	132	139	143	155	156	149	144	144

Note. Where not otherwise stated, the figures are for the middle of the month. ¹ For October 1939 the figures refer in part to *minimum prices*, and for December mainly so. From January 2nd 1940 the minimum prices are no longer in force.

consumption. During the two first months of 1941 the number of pigs killed in slaughter-houses was 22 per cent. less than during the same period in 1940. The supply of fish has likewise declined. The Food Commission estimate the consumption of fish in Sweden during the present year at merely 70,000 tons, as compared with 74,000 tons in 1940 and 112,000 tons in 1939. During the winter months there has been a larger demand for meat, and, despite the unusually large slaughter of cattle, it has been found necessary this year to resort to frozen meat. The production of eggs has had to be reduced, in view of the consideration that a very large proportion of the fodder value is lost in the conversion of the fodder into eggs. Though Danish eggs have been imported to some extent during the quarter, a shortage of eggs has arisen in certain parts of the country.

According to the statistics of the Swedish Board of Trade, wholesale prices rose from the index number 157 in November 1940 to 164 in February 1941. The price advance was particularly marked as regards import goods and agricultural produce, but also export goods commanded higher prices. According to the Riksbank index, the retail prices of consumption goods rose by no less than 7.4 per cent. from November to March.

Also in regard to the position of the commercial banks it may be stated that there has been no marked change during the last few months,

apart from the minor tightening which occurred in connection with the payment of the defence tax in February. Though the situation still presents a favourable contrast to the strained liquidity of the first few months of the war, only two of the biggest Swedish banks can now show a large excess of deposits over advances and considerable liquid funds. Moreover, as deposit and loan business is on a larger scale than at the same time during the years immediately preceding the war, super-normal liquidity seems now to be confined mainly to a few big industrial companies, some of which are among the customers of the said two big banks.

The Stock and Bond Markets. During the past quarter transactions in shares have been on a comparatively small scale and, in reaction to the international situation, share prices, broadly speaking, have shown a falling tendency. The directors' reports of banking and industrial companies indicate a marked increase in taxation. The dividends which companies have been able to pay in recent years, after big reservations for the consolidation of their financial position, have for the most part been maintained also for 1940.

Also during the course of the present year the bond market has been dominated by the defence loans. In fact, the only large new issue during the first quarter of the year was in the middle of January, when the second defence loan of



500 million kronor was offered for subscription up to the 31st May 1941. The loan consists firstly of 4 per cent. bonds, and secondly of 3 per cent. bonds with annual prize drawings, equivalent to 1 %. By the end of the quarter altogether about 342 million kronor had been subscribed.

In the following table approximate figures are given for the yield (in percentage) corresponding to the market value of representative Swedish bond loans during the last few months. According to these statistics, bond prices at the end of the first quarter corresponded to the following yields: for Government and mortgage bank loans 3.55 to 3.60 %, for municipal loans about 4 %, and for industrial loans 4.55 to 4.70 %.

Yield of Bonds (in %).

		1940					1941			
			¹³ / ₉	¹⁸ / ₁₀	¹⁵ / ₁₁	¹³ / ₁₂	¹⁴ / ₁	¹⁸ / ₁₁	¹⁴ / ₁₃	¹⁸ / ₁₃
<i>Swedish Government.</i>										
3 % 1934-.	Conv. 1944	I	3.69	3.63	3.67	3.69	3.65	3.64	3.66	3.64
3 % 1937-97.	Conv. 1947	I	3.67	3.64	3.62	3.64	3.64	3.62	3.59	3.62
<i>Mortgage Banks.</i>										
3 % Conv. 1944-47		. . . 4	3.66	3.61	3.58	3.62	3.60	3.60	3.56	3.58
Repayment 1999-2009, at latest.										
<i>Municipalities.</i>										
3, 3 ¹ / ₄ and 4 % Conv. 1943-46		 3	4.00	3.94	3.98	4.06	4.01	3.96	3.96	3.96
Repayment 1956-1966, at latest.										
<i>Industrial Companies.</i>										
3 ¹ / ₄ 1937-57.	Conv. 1947	3	5.00	4.85	4.80	4.80	4.75	4.70	4.70	4.74
3 ¹ / ₂ % 1937-62.	» 1947	I	4.65	4.65	4.53	4.59	4.56	4.55	4.55	4.55
4 % 1935-55.	» 1945	I	4.48	4.50	4.56	4.64	4.56	4.60	4.64	4.64



Some Statistical Data Concerning Sweden's Economic Position.

Currency Reserve, Stock of Gold, Note Circulation.

	Net Claims of Banks on Foreign Countries million kronor (End of month)									The Riksbank's								
	Riksbank			Commercial banks			Total			Stock of Gold ¹ (million kr.)			Stock of Gold and Net Claims on Foreign Countries ¹ (million kr.)			Note Circulation (million kr.)		
	1939	1940	1941	1939	1940	1941	1939	1940	1941	1939	1940	1941	1939	1940	1941	1939	1940	1941
	1939	1940	1941	1939	1940	1941	1939	1940	1941	1939	1940	1941	1939	1940	1941	1939	1940	1941
Jan.	695	406	769	-15	+ 72	- 87	680	478	682	1363	1084	694	2058	1490	1464	953	1330	1369
Feb.	675	485	747	-19	+ 80	- 75	656	565	672	1364	916	716	2039	1401	1463	943	1298	1362
March	660	505	753	-21	+ 87		639	592		1367	727	724	2027	1232	1477	973	1303	1355
I (Average)	677	465	756	-18	+ 80		658	545		1365	900	711	2041	1374	1468	950	1310	1362
April	618	454		-39	+102		579	556		1397	752		2015	1206		994	1427	
May	593	433		-50	+ 99		543	532		1419	793		2012	1225		965	1433	
June	583	437		-21	+ 94		562	531		1425	834		2008	1271		997	1431	
II (Average)	598	441		-37	+ 98		561	539		1414	793		2012	1234		985	1430	
July	563	578		-17	+ 86		546	664		1434	725		1997	1304		987	1394	
Aug.	549	685		-12	+ 71		537	756		1488	644		2037	1329		1017	1399	
Sept.	476	753		-42	+ 48		434	801		1499	638		1974	1391		1189	1411	
III (Average)	529	672		-24	+ 68		506	740		1474	669		2003	1341		1064	1401	
Oct.	421	774		- 3	+ 12		418	786		1396	631		1817	1405		1192	1391	
Nov.	386	801		+11	- 34		397	767		1398	658		1784	1459		1190	1362	
Dec.	301	750		+47	- 64		348	686		1293	672		1594	1422		1356	1428	
IV (Average)	369	775		+18	- 29		387	746		1362	654		1712	1420		1246	1394	
Notes	The figures comprise balances with foreign customers and holdings of foreign bills and foreign bonds less amounts due to foreign customers.									At end of month.						Monthly averages		

¹ The Riksbank holding of gold is given at its market value, other items at their book values.

Commercial Banks, Stock Exchange.

	Commercial banks									Share Index								
	Deposits (million kr.)			Advances incl. bills rediscounted (million kr.)			Surplus of Advances (million kr.)			Home Industries			Other Industries			Shares sold on the Stockholm Stock Exchange (1000 kr.)		
	1939	1940	1941	1939	1940	1941	1939	1940	1941	1939	1940	1941	1939	1940	1941	1939	1940	1941
Jan.	4145	4334	4294	4223	4831	4337	78	497	43	175	145	148	171	130	155	1034	257	453
Feb.	4169	4231	4247	4265	4897	4369	96	666	122	175	136	143	170	130	148	873	213	293
March	4260	4245		4327	4884		67	639		180	149	136	176	153	143	997	684	266
I (Average)	4191	4270		4272	4871		81	601		177	143	142	172	138	149	968	388	337
April	4217	4120		4375	4865		158	744		177	154		165	128		814	370	
May	4190	4007		4414	4798		224	791		182	134		170	132		782	255	
June	4242	3999		4450	4702		208	703		188	135		174	131		1509	220	
II (Average)	4216	4042		4413	4788		197	746		182	134		170	130		1035	282	
July	4367	4132		4437	4612		70	480		187	144		169	137		370	157	
Aug.	4447	4190		4535	4548		88	358		186	134		170	125		732	111	
Sept.	4488	4223		4742	4456		354	333		187	136		167	128		994	166	
III (Average)	4434	4182		4871	4539		137	357		187	138		169	130		701	148	
Oct.	4444	4239		4791	4415		347	170		160	139		140	129		581	243	
Nov.	4290	4072		4850	4406		554	314		160	143		143	147		286	614	
Dec.	4232	4192		4873	4388		641	196		154	149		137	147		76	474	
IV (Average)	4324	4174		4838	4493		814	229		158	144		140	143		314	480	
Notes	Deposits from and loans to the public within the country (at the end of the respective month)									The figures denote mid-monthly average prices.						Averages per Stock Exchange business day		

Rates of Interest and Price Level.

	Yield of Bonds (%)						Wholesale Price Index (Board of Trade) (1935 = 100)									Cost of Living Index (July 1914 = 100)		
	Govt. Loans			Industrial Loans			Import Goods			Export Goods			All Goods			1939	1940	1941
	1939	1940	1941	1939	1940	1941	1939	1940	1941	1939	1940	1941	1939	1940	1941			
Jan.	2.39	4.07	3.65	2.79	5.92	4.75	108	166	218	111	140	155	110	136	162	167	178	204
Feb.	2.34	4.04	3.64	2.78	6.04	4.70	108	168	220	111	147	155	109	138	164	.	.	.
March	2.22	4.10	3.60	2.78	5.98	4.70	108	174		112	152		109	140		.	.	.
I (Average)	2.32	4.07	3.63	2.78	5.98	4.72	108	169		111	146		109	138		168	186	
April	2.55	4.53		2.77	7.27		108	172		111	154		109	141		.	.	.
May	2.53	4.41		2.77	7.27		109	170		110	153		109	142		.	.	.
June	2.57	4.12		2.77	6.33		110	175		113	144		109	143		.	.	.
II (Average)	2.55	4.35		2.77	6.96		109	172		111	150		109	142		169	193	
July	2.92	3.99		2.78	5.53		109	179		114	143		110	146		.	.	.
Aug.	2.76	3.81		2.93	5.31		110	182		114	144		111	146		.	.	.
Sept.	3.44	3.69		4.21	5.00		139	179		118	145		118	148		.	.	.
III (Average)	3.04	3.83		3.31	5.28		119	180		115	144		113	147		171	197	
Oct.	3.52	3.63		4.49	4.85		150	199		127	150		124	154		.	.	.
Nov.	3.69	3.67		4.72	4.80		153	208		130	151		128	157		.	.	.
Dec.	4.10	3.69		5.31	4.80		161	211		135	151		132	159		.	.	.
IV (Average)	3.77	3.66		4.84	4.82		155	209		131	151		128	157		.	.	.
Notes	Calculated on market prices at middle of months															Refers to end of quarters		

Handel och industri.

	Total Imports (million kr.)			Total Exports (million kr.)			Index of Pro- duction according to Feder. of Swed. Industries (1935 = 100)			Supply of Indust- rial Work Index numbers			Waggon-axe Kilometres of loaded Trucks on State Railways			Unemployment in Trade Unions (%)		
	1939	1940	1941	1939	1940	1941	1939	1940	1941	1939	1940	1941	1939	1940	1941	1939	1940	1941
Jan.	174	258	126	149	169	85	118	128	106	.	3.66	3.21	40.1	66.6	65.8	14.7	14.1	17.1
Feb.	163	167	78	125	115	47	120	127		.	3.67		42.1	74.7		13.0	14.5	
March	191	150		139	140		122	126		.	3.60		48.9	76.9		11.6	15.8	
I (Average)	176	192		138	141		120	127		3.66	3.64		43.7	72.7		13.1	14.8	
April	201	238		152	104		123	118		.	3.53		46.1	82.2		9.0	11.1	
May	208	197		166	80		123	107		.	3.44		47.8	63.0		6.3	9.5	
June	202	136		178	86		125	107		.	3.42		48.5	53.6		5.6	8.7	
II (Average)	204	190		165	90		124	111		3.92	3.46		47.5	66.3		7.0	9.8	
July	204	140		160	92		125	106		.	3.40		49.1	65.8		4.8	9.0	
Aug.	217	123		185	97		126	106		.	3.38		52.6	62.3		4.9	9.1	
Sept.	179	148		131	106		124	105		.	3.36		61.1	74.7		6.3	9.8	
III (Average)	200	137		159	98		125	100		3.96	3.38		54.3	67.6		5.3	9.3	
Oct.	219	139		160	103		126	106		3.78	3.35		62.4	77.6		8.0	11.0	
Nov.	274	155		180	124		127	107		3.78	3.35		61.4	70.8		10.4	12.6	
Dec.	258	149		155	121		128	107		3.77	3.35		66.3	69.1		15.2	16.1	
IV (Average)	250	148		165	116		127	107		3.78	3.35		63.4	72.5		11.2	13.2	
Notes							Seasonal change removed			The figure 3 denotes normal supply of work			Million kilom. per month			% of total members at end of month		

SKANDINAVISKA BANKEN

AKTIEBOLAG

Statement of Condition February, 28th, 1941

ASSETS.

Cash in hand	Kr.	193.545.254: 96
Swedish Treasury Bills	'	37.000.000: —
Swedish Bills	Kr. 271.125.016: 37	
Foreign Bills	317.321: —	' 271.442.337: 37
Loans (secured)	'	445.808.051: 09
Current Account (secured)	'	77.050.225: 68
Swedish Banks and Savings Banks	'	33.246.221: 06
Foreign Banks	'	10.214.683: 44
Sundry Accounts	'	12.259.015: 13
Bonds	'	80.152.093: 19
Shares	'	127.131.553: 42
Bank Buildings & Furniture	'	17.109.694: —
	Kr.	<u>1.304.959.129: 34</u>

LIABILITIES.

Bills at sight in circulation (»postremiss» bills)	Kr.	14.032.011: 57
Deposits:		
at sight	Kr. 219.996.439: 91	
at notice	806.071.371: 40	' 1.026.067.811: 31
Swedish Banks	'	25.147.192: 36
Swedish Savings Banks	'	9.648.143: 93
Foreign Banks	'	30.670.585: 77
Sundry Accounts	'	37.393.384: 40
Share Capital	Kr. 87.188.000: —	
Reserve Funds	74.812.000: —	' 162.000.000: —
	Kr.	<u>1.304.959.129: 34</u>

Inside the Circle:
Private Telephone Lines of the
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